

# **Strategies for South Africa's Ascent in the Modern World-System**

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## ABSTRACT

Strategies for South Africa's development are often analysed from a predominantly economic perspective, overlooking the key role that political and sociocultural elements play in the developmental process. This study will assess possible development strategies by making use of the modern world-systems (MWS) theoretical perspective, due to the theory's holistic approach to development. The question is posed whether South Africa – in accordance with the MWS perspective – will be able to ascend from its current semi-peripheral position in the hierarchy of the modern world-system to the core group of states by 2025. The components for national development are all-encompassing and require an increase in state strength, long-term economic development, and domestic and international sociocultural influence.

Prospects for South Africa's ascent to the core have been explored within a 15-20 year time period because the capitalist world-economy is currently still in a phase of contraction, or B-phase of growth (1973-2025). The modern world-systems theoretical approach asserts that country mobility is more likely during this phase and that ascent in the hierarchy will be increasingly difficult when the world-economy begins its expansionary phase around 2025.

The study concludes that South Africa faces numerous external and internal constraints to its development, despite the noteworthy economic, political and sociocultural incentives that it could potentially capitalise on over the next fifteen years. It is anticipated that these constraints will place the country in a position whereby it will be unable to reap the benefits of the most optimal developmental strategies put forward by the modern world-systems approach; hence it will be severely challenged to attain core status by 2025.

## OPSOMMING

Strategieë vir die ontwikkeling van Suid-Afrika word meerendeels geanaliseer vanuit 'n hoofsaaklike ekonomiese invalshoek en dit het tot gevolg dat die rol wat politieke en sosio-kulturele aspekte in die ontwikkelingsproses speel nie op ag geslaan word nie. Die studie evalueer moontlike ontwikkelings-strategieë vir Suid-Afrika deur gebruik te maak van die moderne wêreld-sisteem teoretiese benadering (MWS) wat 'n meer holistiese perspektief op ontwikkeling bied. Die vraag word gevra of Suid-Afrika – in ooreenstemming met die uitgangspunte van MWS - teen 2025 sal kan vorder tot die kategorie van “kern-staat”, vanaf sy huidige status as “semi-periferale staat”. Die allesomvattende komponente vir ontwikkeling wat MWS identifiseer vereis die groei van staatskapasiteit, langtermyn ekonomiese ontwikkeling, en die uitbreiding van regionale en internasionale sosio-kulturele invloed.

Die vooruitsigte vir Suid-Afrika se opgang is nagevors oor die verloop van 'n 15-20 jaar tydperk, aangesien die kapitalistiese wêreld-ekonomie tans in 'n fase van kontrakisie verkeer (B-fase van groei) tussen 1973-2025. Die MWS benadering argumenteer dat opwaartse mobiliteit van state meer waarskynlik is tydens 'n B-fase van groei en dat opgang moeiliker sal word wanneer die wêreld-ekonomie weer 'n ekspansionistiese fase van groei betree in 2025.

Die studie kom tot die gevolgtrekking dat Suid-Afrika se ontwikkelings-uitdagings deur beide eksterne en interne faktore bemoeilik word, nieeenstaande moontlike sterkpunte op ekonomiese, politieke en sosio-kulturele gebied waarop dit sou kon kapitaliseer oor die volgende 15 jaar. Hierdie faktore, word geargumenteer, sal veroorsaak dat die optimale ontwikkelingstrategieë wat deur ander state gevolg is, nie deur Suid-Afrika nagevolg sal kan word nie, en dat gevolglik, sonder innoverende strategieë, die kans dat die land kern-status teen 2025 sal bereik, gering is.

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## **Chapter One**

### **Introduction**

#### **1.1. Background to the Study**

Post-Apartheid South Africa has emerged out of the cloud of uncertainty that seemed to obscure its future prospects in the early nineties. It has successfully carried out four relatively peaceful democratic elections since then and possesses one of the most liberal constitutions in the world. South Africa is also the dominant economic player on the African continent and has an economy that is highly sophisticated in many sectors. The country is beginning to recover after experiencing its first recession in 17 years due to the global economic crisis. According to World Bank (2011a, 2011b, 2011c) statistics, before the global financial crisis hit South Africa it maintained a favourable real gross domestic product (GDP) growth rate of five percent between 2004 and 2007. With a gross national income (GNI) per capita of US\$6,090 in 2010, it is classified as an upper middle-income developing country by the World Bank (World Bank, 2011d). Furthermore, Africa's southern-most state is held in high regard in international security circles after it voluntarily disbanded its nuclear weapons programme. Its human rights based foreign policy has allowed it to take part in several high-level diplomatic activities, such as the conflicts in Sudan and Northern Ireland and the peace process in Israel and Palestine (Van der Westhuizen, 1998:435-437).

Strategies for South Africa's development are predominantly examined from a purely economic standpoint, whilst overlooking the impact of political and social elements. There is considerable contestation among scholars about the degree of importance that the performance of a country's economy has on its overall development and whether it can be looked at in isolation. The integrative approach in the social sciences, although not specifically focused on development, is a relatively new one and theorists (Gilpin, 2001; Keohane and Nye, 1977) with an understanding of the international political economy (IPE) are sensitive to the dynamics of interdependence within a world that is increasingly subjected to the forces of globalisation. Keohane (2009) recalls:

“When Susan Strange, Joseph Nye, Peter Katzenstein, Stephen Krasner, John Ruggie, and I started to explore IPE – Susan in the 1960s, Joe and Steve and I around 1970, Peter and John a few years later – there was no field. Very little research was being done. Most economists were ignoring politics, and international relations specialists saw political economy as ‘low politics’, minor, boring, and incomprehensible. So our task – and opportunity – was first one of identification, then of broad interpretation” (Keohane, 2009:34)

This study is based on the premise held by Modern World-Systems (MWS) theorists that equating a country’s position and development in the international system solely to its economic performance does not paint the entire picture. For this reason, the approach will be to examine the social, economic and political dynamics of development in South Africa. The MWS theoretical perspective will be used for this endeavour as it delves deeply into the theme from a systemic point of view. World-systems theorists aspire to incorporate various social scientific disciplines in gaining an understanding of our complex world, especially in the fields of politics and economics. They aim to do this by claiming that the modern world-system consists of an interstate system and a world-economy. This integrated approach of social scientific disciplines returns to what Strange (1984) described as:

“... a vast, wide open range where anyone interested in the behavior of men and women in society could roam just as freely as the deer and the antelope. There were no fences or boundary-posts to confine the historians to history, the economists to economics. Political scientists had no exclusive rights to write about politics, nor sociologists to write about social relations” (Strange, 1984:ix).

Wallerstein (1974b) is the ‘father’ of MWS theory, which emerged in the early 1970s. He believes that the modern world-system - in the form of the capitalist world-economy - has its roots in 16<sup>th</sup> century Europe (Wallerstein, 1974b:229). It is driven by the enduring need of capital accumulation and has enlarged to the extent that it has incorporated the entire planet (Hobden and Wyn Jones, 2005:206). The interstate system is the political equivalent of the capitalist world-economy; the two combine to form the current world-system (Sanderson, 2005:182). It is anticipated that by locating its current position in the modern world-system, coupled with the knowledge of the system’s future trajectory, this perspective will help us to understand the internal and external policy alternatives that will direct South Africa’s future development.

## 1.2. Problem and Research Question

McGowan (1993) stresses the need for a shift toward an integrated understanding of development by emphasising that ascent or descent within the current world-system can only be understood by means of a holistic approach. He argues that although long-term economic development forms the base for upward mobility in the world-system; cultural strength and impact, as well as political stability and legitimacy (combined with sound public and foreign policies by the state), are necessary for leadership in international and regional affairs (McGowan, 1993:37).

According to MWS theorists, the world is organised as a political-economic hierarchy of core, semi-peripheral and peripheral states. A state's position in this hierarchy is determined by its role in the division of labour within the capitalist world-economy (Shannon, 1989). Core states are economically, politically, and technologically advanced and essentially comprise the members of the Organisation for Economic Co-operation and Development (OECD); other than possibly South Korea. Semi-peripheral states and zones share core-like and peripheral-like traits and include much of Eastern Europe, the major oil-exporting countries, and the range of newly industrialised countries (NICs) such as South Korea, Taiwan, Brazil and Mexico (Haggard, 1990:9). Peripheral countries are economically underdeveloped and are politically unstable; they occupy large regions in the world, which include Africa, Latin America and the Caribbean, and the Middle East and Asia. According to McGowan (1993), national development in the current era has involved ascent in this hierarchy, as experienced by the United States and Germany in the 19<sup>th</sup> century and the Republic of Korea since 1960. Decline has also been a reality for many states such as the semi-peripheralisation that occurred in Bourbon Spain (McGowan, 1993:37).

World-systems theorists (Wallerstein, 1979; Arrighi and Drangel, 1986; Andreasson, 2001; Martin and Wallerstein, 1990; Ahwireng-Obeng and McGowan, 1998b) appear to be in agreement that South Africa currently possesses an advanced semi-peripheral status in the modern world-system. This argument is supported when analysing the country's contemporary economic and political situation. Gross National Product (GNP) per capita is the primary economic-level indicator that these theorists use for assessing a country's position in the MWS. South Africa's proposed semi-peripheral

position corresponds with the World Bank's (2011e) GNP per capita country classification criteria for upper middle-income developing countries.

Cox (1992) explains the power, or political, structure behind the economic base of the modern world-system as follows:

“Core economies are dominant over peripheral economies; they determine the conditions in which peripheral economies produce and they extract surplus from peripheral production for the enhancement of the core. Thus, the core produces underdevelopment in the periphery through the economic relations linking the two. Semi-periphery economies are strong enough to protect themselves from this kind of exploitation, and they struggle to attain core status” (Cox, 1992:510).

The semi-periphery benefits from this exploitative relationship by dominating the periphery through a trade surplus. Trade patterns are usually skewed heavily in favour of the semi-periphery as peripheral countries serve as a market for their exports. This exploitation by the semi-periphery has an important role to play on the systemic level, as it brings stability to the world-system (Wallerstein, 2000:88-90). This stabilising role serves as a useful political indicator of a country's semi-peripheral status; this is also reflected in its diplomatic activities. Van der Westhuizen (1998) and Jordaan (2003) observed that South Africa conducts its foreign policy in accordance with other middle powers; which is a predominantly stabilising and peacemaking role. The country's diplomatic activities have extended beyond the southern Africa region; it has for example engaged in the peace process in Israel and Palestine, and the conflict in Northern Ireland (Jordaan, 2003:167-169; Van der Westhuizen, 1998:435-437). The contention is not that a middle power and a semi-peripheral state share the same characteristics; a useful comparison can be drawn between the world-systems and middle power theory however when one looks at the extensive use of multilateral activities that these sets of countries are involved in. South Africa's multilateral activities can be seen in its increasing involvement in institutions and alliances such as the World Bank, the G-20, BRICS (Brazil-Russia-India-China-South Africa) and IBSA (India-Brazil-South Africa) (World Bank, 2011e).

McGowan (1993) focused on whether South Africa was likely to ascend from the semi-periphery into the core, and as a result be comparable to minor core states such

as Ireland and Portugal; or whether it would descend into the African zone of the world's periphery. He contended that the answer to this question lay in the careful analysis of the recent past, the present, and the near-term situation in the world and in South Africa (McGowan, 1993:37). The outlook at the time was somewhat gloomy considering that the country was experiencing significant political instability as well as negative economic growth during that period. McGowan's analysis, as well as that of Andreasson (2001), will be discussed in the literature overview in the following chapter. The chapter will also contain a theoretical component based on Wallerstein's work that, amongst other things, will discuss the possible strategies for ascent in the modern world-system.

A comparative study will be made between recent ascents in the MWS using the different development strategies proposed by the theoretical perspective, in order to assess whether the growth trajectories are completely independent or whether there is a degree of compatibility. This study supports the argument that all ascents in the MWS need to adopt a level of protectionism at different stages of their development. Sally (Sally, 2000:403) points out that between 1985 and 1995 almost half of all developing countries with protectionist policies adopted relatively open trading regimes.

The impact that the World Trade Organisation (WTO) has had on the movement within the hierarchy of core, semi-peripheral and peripheral states needs to be looked at closely as a result. Theorists such as Robert Wade argue that the WTO's commitment to liberalisation and privatisation is shrinking both the development and 'self-determination' space of developing countries (Wade, 2003:622). Chang (2003) refers to this shrinkage as 'kicking away the ladder' as the developed nations – who he argues adopted interventionist policies such as infant industry protection and export subsidies during their developmental phases – are hiding the 'secrets of their success' (Chang, 2003:1-3). The impact that the WTO has had on developmental policy alternatives will be looked at in a separate chapter, considering that it may have a significant impact on South Africa's policy space. It could make it more difficult for South Africa to emulate successful ascents in the modern world-system if this is the case. The need for comparison is important because South Africa can learn a lot from the successes and failures of countries that followed different developmental paths.

The aim of this study is to present an updated version of South Africa's current position and prospects in the modern world-system, by revisiting and building upon the work conducted by McGowan (1993) and Andreasson (2001). This will also be undertaken by combining a historical, contemporary, and forward-looking analysis of South Africa and the world-system. The study will identify strategies that can assist South Africa with its endeavour to acquire core status, once its current position has been located in the modern world-system and a comparison has been made to previous studies regarding whether it has been ascending or descending in this system. South Africa's internal and external strategies for ascent should be evaluated in conjunction with its anticipated domestic and international constraints and incentives.

The **research question** for this study is the following: *What strategies can South Africa employ in order to ascend in the contemporary modern world-system?*

### **1.3. Research Objectives**

The primary objective of this study is to evaluate what contribution modern world-systems theory can make to better understand South Africa's developmental strategy alternatives. From this perspective, the measurement of the country's development will entail a shift from the semi-periphery to the core group of countries. In addition to furthering research already undertaken regarding this topic by authors such as McGowan (1993) and Andreasson (2001), the remaining chapters will be guided by the following questions:

1. What is the Modern World-Systems theory and what strategies have led to ascent in the MWS?
2. What has South Africa's historical trajectory in the MWS been?
3. What impact has the advent of the WTO had on strategies implemented by countries aspiring to move up this division of labour? How does it affect the comparisons that South Africa should draw upon when analysing recent ascents in the MWS?



4. What should South Africa's internal and external strategies for ascent be and how can they be tailored to anticipated changes in the world-system over the next 15-20 years?

#### **1.4. Motivation for the Selection of this Case**

Limited research has been undertaken using a holistic approach when looking for ways in which South Africa can secure its future growth and development. Fewer researchers have tried to do so using the MWS theoretical perspective as the foundation for their analysis. Building on the existing literature, this thesis will provide a contemporary understanding of South Africa's current position and future prospects within the world-system. South Africa's political, economic, and cultural influence is being increasingly felt internationally, and particularly within Africa. Coming out of nearly fifty years of authoritarian rule under the Apartheid regime, the country's gradual democratic consolidation greatly influences its ability for upward mobility within the modern world-system. South Africa's new democracy has gained international accreditation, often allowing it to punch above its weight in the global arena (Van der Westhuizen, 2002:15).

Being a middle-income, emerging country, South Africa plays an important role in the global economy. Its influence is amplified on the African continent, wherein it is often viewed as the dominant player. McGowan (1993) notes that the cultural influence of countries is often overlooked, and this is something which South Africa possesses in abundance. Its highly respected academic institutions, sporting achievements, and the fact that it is a member of the English-speaking world, combine to give South Africa a decided advantage over other upper-middle income countries (McGowan, 1993:342-43).

Although not being investigated in this study, the country's ascent in the modern world-system towards the core group of states could have a major impact on the growth of the rest of the continent. There is significant potential for the spill-over of the country's economic, political, and social/cultural success. South Africa is seen as the gateway to the rest of Africa. All of these elements combine to make this a necessary area of enquiry.

### **1.5. Research Design**

The research design will follow a historical-comparative approach (Mouton, 2001:154,170). This approach supports the aim of this study by tracing the development of countries over time and comparing their developmental strategies. The historical nature of this study will draw on comparisons at different times in the modern world-system, since the inception of capitalism around the sixteenth century. It needs to be comparative in nature because it allows for a cross-national focus on the similarities and differences between groups of units of analysis. This is especially effective when assessing the movement of countries within the division of labour. A comparison will be made between country classifications i.e. core, semi-peripheral and peripheral countries; as well as between individual countries that have adopted specific developmental strategies, such as Mexico and Brazil, Russia and China, and Taiwan and South Korea.

Mouton (2001) believes that the advantage of the comparative approach is that it provides the opportunity to test a theory across different settings. A major limitation of the approach, however, lies in the degree of comparability of the cases. The researcher needs to look beyond merely selecting the appropriate cases for the purpose of selection, by taking constraints such as differences in language and culture, and various other endogenous forces, into account (Mouton, 2001:154-155).

### **1.6. Methodology**

According to Wallerstein (1974b), the world-system itself is the primary unit of analysis in modern world-systems theory. South Africa and the various other states that will be selected for this study exist within the world-system. The methodology of this study will follow a hybrid of the quantitative-statistical and the qualitative-interpretative approaches (Marais and Mouton, 1988:153). Statistical indicators such as national income per capita and gross domestic product are paramount when undertaking the task of tracking a country's performance within the world-system. These statistics have no meaning in isolation however, and gain their real value when utilised within the historical-comparative approach of this thesis. The research will also be descriptive and explanatory in nature (Marais and Mouton, 1988:42-46). It is descriptive in its assessment of the modern world-system and the movement of states within the system itself. The study is explanatory in its attempt to predict the most

suitable strategy, or mix of strategies, that will lead to South Africa's upward mobility in the division of labour. The predictive element of the explanatory research takes place within a 15-20 year time scope, and is presented within the MWS theoretical framework. This time scope is being used because the capitalist world-economy is currently still in a phase of contraction, or B-phase of growth. The modern world-systems theoretical approach states that semi-peripheral mobility is much more likely during this phase. It is anticipated that the world-economy will begin its expansionary phase around 2025 (Hopkins and Wallerstein, 1996).

No primary data collection will be carried out for the purpose of this study; it will thus be completely reliant on secondary data and desktop analysis. This will suit the historical-comparative, descriptive and explanatory nature of the study. The data will be collected from secondary sources such as academic books and journals, the Internet, and newspaper articles.

## **1.7. Key Variables**

### **1.7.1. Dependent and Independent Variables**

The dependent variable focuses on why a state, South Africa in this case, ascends in the hierarchy of the modern world-system. The independent variables comprise the economic, political and cultural indicators that have either a positive or negative influence on the possibility of ascent. According to McGowan (1993), economic, state and cultural strength serve as the components required for national development in the political-economic hierarchy of core, semi-peripheral and peripheral states. MWS theorists utilise diverse indicators for determining a country's location in this hierarchy; hence this study will be combining the most prominent economic, political and cultural indicators. The economic requirement for upward mobility is based on the development of South Africa's role in the international division of labour. Good indicators of this development include the nature of its imports and exports, the percentage of GDP growth and the composition of GDP per sector (Wallerstein, 1979). The World Bank's comparative statistics, based on national income per capita, serve as another important indicator that will be used to assess whether South Africa has moved from its current upper middle-income developing country status to one where it joins the group of high-income core countries (Arrighi and Drangel, 1986).

An indication of South Africa's development on the political level will be measured by whether it experiences an increasingly influential role in regional and global affairs, whilst furthering its domestic political strength. Both the nature of the country's diplomatic activities and the furthering of its hegemonic attributes on the African continent are good indicators of the former (Ahwireng-Obeng and McGowan, 1998b; Shannon, 1989). Domestic state strength will be measured by looking at the legitimacy of the ANC government, whether democratic consolidation is being furthered, the quality of its public policies, and whether it can ensure regional security. The extension of South Africa's cultural strength is paramount on the social level. Reputable institutions, as well as influence in the world of entertainment and sport, are indicators of positive cultural traits that a country should try to advance. Socioeconomic characteristics will also be assessed due to the potentially divisive role that they can play during the formation of state unity (McGowan, 1993).

### **1.7.2. Intervening Variables**

The intervening variables – *strategies for ascent* – could potentially influence how ascent in the hierarchy can be brought about using the economic, political and cultural indicators. The adoption of each strategy, or mix of strategies, will either hinder or facilitate ascent. Wallerstein (1974a) proposes that there are three possible strategies for ascent in the modern world-system. These include development through self-reliance, by invitation, or by seizing the chance. Wallerstein also proposed a fourth strategy which is solely aimed at semi-peripheral ascent. This strategy involves attaining a favourable strategic mix of policies which allow semi-peripheral countries to attain optimal cost levels whilst acquiring a certain absolute size of the market for their products in order to ascend in the world-economy.

#### Strategy A

##### *Ascent through self-reliance*

This closed national strategy of structural change was prevalent in Communist countries such as China and Russia. Of all the strategies this one has enjoyed the least success, with one of the most successful interestingly being Tanzania (Wallerstein, 1974a:14-15).

### Strategy B

#### *Ascent by invitation*

Promotion by invitation usually occurs during moments of economic expansion. Both Japan and South Korea are contemporary examples of countries that have benefited from this collaborative development, with the US in this case. On the African continent, the Ivory Coast underwent this path of development (Wallerstein, 1974a:13-14).

### Strategy C

#### *Ascent by seizing the chance*

This approach, which is also known as import substitution, is adopted by countries during moments of world-market contraction. It has traditionally resulted in an increase in industrial activity in these countries, such as that experienced by South Africa, Brazil, and Mexico in the wake of the Great Depression of 1929 (Wallerstein, 1974a:9-10).

### Strategy D

#### *Combining optimal cost levels with an enlarged market*

It is of paramount importance for semi-peripheral countries attempting to make this shift that they have a large enough market (internal or external) at their disposal to justify a sophisticated technology that is produced at a lower cost than existing producers. Successful countries have adopted various techniques to enlarge their markets for national products. Both Germany and the United States made this transition in the nineteenth century; whereas England had already gained membership by the time the seventeenth-century recession came about (Wallerstein, 1974a:16-18).

After careful consideration the most appropriate strategy, or mix of strategies, will be proposed for South Africa in its attempt to attain core status. South Africa's proposed policy options need to be expanded thereafter, by placing them within the context of the internal and external constraints and incentives that should be addressed and exploited respectively. These constraints and incentives will be put forward holistically by evaluating their political, economic, and social elements. Economic incentives include South-South trade in the current B-phase, outperforming the upper middle income group, and capitalising on Africa as South Africa's external market.

The economic constraints that need to be addressed revolve around the mineral-energy complex, the state of technology and infrastructure, wage levels, and the brain drain. The political incentives that will be looked at are consolidation of South Africa's relatively new democracy and the utilisation of foreign policy as a partnership-building tool; constraints include corruption, crime and xenophobia. The growth of South Africa's cultural strength through high quality institutions and through achievements in the sporting arena will help to extend the country's soft power; whereas significant constraints are experienced as a result of unemployment, poverty, and inequality, as well as health and education levels (Ahwireng-Obeng and McGowan, 1998b; Alden and Soko, 2005; Arrighi and Zhang, 2010; McGowan, 1993; World Bank, 2011e).

### **1.8. Research Limitations**

The consultation of secondary sources and desktop research will serve as the primary mode of gathering information for this thesis. The researcher is restricted to the books and journals that can be accessed via public libraries and the Internet. The historical nature of the research means that reliability and validity cannot be guaranteed. The data will be analysed objectively as a result, taking into account the possibility of ethnocentrism. The next limitation concerns the theoretical framework that this study bases its arguments on. Critics of the modern world-systems theory argue that it overlooks endogenous characteristics of societies, and overemphasises economic relationships; they also refute the theory's notion of the exploitation of the periphery, as well as the development of underdevelopment.

MWS theorists defend the importance that they give to economic relationships by emphasising that the complexity of the social world cannot be understood by breaking it up into different areas of enquiry. They hold the materialist conception of history which states that the economic development of society is a catalyst for historical change (Hobden and Wyn Jones, 2005:200-205). Wallerstein maintains that a society's position in the world-economy is the sole determinant of where it is located politically and militarily in the world-system. This is seen in his explanation of the exploitation of the periphery by the core, serving as the fundamental relationship among parts of the system (Shannon, 1996:138).

It is evident that endogenous characteristics of societies are neglected but an over analysis of this would rob the theory of its greatest attribute, namely that it incorporates a holistic approach on a systemic level. This framework allows the analysis of the topic to be far more integrative than it would otherwise have been. The increasing speed of globalisation has illuminated the interconnectedness of what was traditionally viewed as separate spheres of society, both within, and between countries. This thesis, operating within the MWS framework, will be subject to the same strengths and weaknesses that the theory is said to possess. The following chapter will contain a detailed description of the arguments for, and against, the MWS theory.

### **1.9. Structure of Study**

This study comprises six chapters. The outline of these chapters is as follows:

#### **Chapter One: Introduction**

The opening chapter will introduce and provide the background to the study. It will contain the problem statement, objectives, research design and methodology, as well as the important conceptual definitions.

#### **Chapter Two: Literature Overview and Theoretical Perspective**

The second chapter will provide a detailed overview of the literature and theoretical knowledge required to gain an understanding of the dynamics of the topic. The works of McGowan, Wallerstein and Andreasson will be used for this endeavour. The chapter will conclude with a description of the three possible strategies for ascent in the modern world-system. They are ascent by means of seizing the chance or import substitution (Mexico and Brazil), self-reliance (these include Communist countries such as China and Russia) and by invitation or export-led growth (Taiwan and South Korea). Wallerstein added a fourth strategy to the mix, which was exclusively for semi-peripheral ascent.

#### **Chapter Three: South Africa's Incorporation into the Modern World-System**

South Africa is currently an advanced semi-peripheral country. This chapter will explain how it reached this point by tracking its development in two phases, namely the 1840s – 1920s and 1920s – present. It is believed that South Africa was

incorporated into the modern world-system around the 1840s through the production of wool and sugar, which was followed by the boom in diamond and gold mining activity a couple of decades later. Its peripheral status came to an end around the 1920s as the country adopted an import substitution strategy. The last ninety years or so has seen South Africa not only solidify its semi-peripheral status but develop into an advanced entity within this phase.

#### **Chapter Four: Recent Ascents in the Modern World-System**

The nature of the world-system has changed considerably since the inception of the WTO. These new dynamics have resulted in a shift in strategy for countries wishing to ascend in the modern world-system. The chapter will firstly assess the development strategies of the established core powers. This will be followed by a comparative analysis of recent ascents (post-World War II) in the modern world-system that have implemented different strategies. The purpose of the comparison between China and Russia (self-reliance), Mexico and Brazil (import substitution), and South Korea and Taiwan (export-led growth), is to assess whether their strategies are completely distinct or whether there is a degree of compatibility. The chapter conclude with an analysis of how contemporary strategies for development have been moulded by restrictive WTO policies, with the intention of applying these findings to South Africa's future strategy.

#### **Chapter Five: How South Africa can get into the Core**

This chapter forms the crux of the thesis and will delve into the most optimal internal and external strategies proposed for South Africa's development making use of the MWS theoretical perspective. The time scope for assessing South Africa's prospects for ascent will be approximately 15-20 years, as it is anticipated that the world-economy will still be in a negative phase of growth up until then. The following chapter will explain that semi-peripheral ascent occurs more easily during this phase; it is therefore vital to have an understanding of the expected changes that will take place within the nature of the world-system by 2025 as this will determine the most optimal development strategies that South Africa has at its disposal.



## **Chapter Six: Concluding Remarks**

The final chapter will assess whether South Africa is able to adopt the proposed developmental strategies by placing them within the context of the internal and external constraints and incentives that need to be addressed and exploited respectively. The impact of these constraints and incentives will be assessed by placing them within their political, economic and sociocultural spheres of influence. The chapter will end off with a discussion of the main findings of the study and will be followed by recommendations for future research.

## **Chapter Two**

### **Literature Overview and Theoretical Perspective**

#### **2.1. Introduction**

The first chapter introduced the topic and set the tone for the remainder of the study. This chapter will provide a detailed overview of the literature and theoretical knowledge required to gain an understanding of the dynamics of the MWS theoretical approach. The literature review will look at previous assessments of South Africa's location in the modern world-system and will include the works of McGowan, Wallerstein, Andreasson and others. The theoretical component of the chapter will begin with an analysis of the origin and structure of the MWS, followed by the definition of key theoretical concepts and major criticisms of the theory. The theoretical section will conclude with a description of the three possible strategies for ascent in the modern world-system, namely by means of seizing the chance or import substitution, self-reliance, and by invitation or export-led growth. The second chapter will conclude by identifying the indicators that will be used in the analysis of South Africa's current location in the modern world-system, as well as with a summary of the proposed strategies for a state's progression in this system.

#### **2.2. Literature Review**

McGowan (1993) conducted research into South Africa's incorporation into the modern world-system and tracked its gradual ascent from the periphery to its current semi-peripheral status. In 1993, he wrote a paper assessing the new South Africa's chances for ascent or descent within the world-system. He concluded that during that period it was unlikely to maintain its position in the medium-term. McGowan utilised a holistic approach in his analysis of South Africa's current location, and its potential for upward mobility, in the modern world-system. According to McGowan, the key components for national development are state strength and politics; cultural strength and influence; and the performance of the economy. He emphasised that even though upward mobility in the world-system is based on long-term economic development, it needs to be supported by a strong state that is able to exert a high degree of cultural strength. Key political indicators include the legitimacy of the government, the state's hegemonic attributes, its public policies and finances, the level of democratic

consolidation and its domestic and regional security. Economic indicators comprise a comparison of GDP per capita between semi-peripheral states, the nature of the state's imports and exports, the degree of growth in GNP per capita, and whether its macroeconomic and fiscal policies favour savings, investment and low inflation. Important cultural indicators consist of the state's linguistic, ethnic, religious, cultural, educational and sporting achievements and characteristics (McGowan, 1993:37, 41-46).

On the political level, South Africa's bleak outlook was attributed to its tumultuous political situation that it experienced at the time, when political instability was rife despite the unbanning of the liberation movements and other anti-apartheid organisations in 1990. Added to this, the interim government was not able to change the fact that since 1910 the majority of South Africa's people had not viewed any of its successive governments as legitimate (McGowan, 1993:41-46). Economically, South Africa was categorised as an upper middle-income developing country by the World Bank in 1990, based on national income per capita. It must be noted, however, that this indicator does not provide an all encompassing view of a state's level of development due to the fact that its level of inequality is not specified; despite this, the real advantage lies in the opportunity to compare this indicator across different states. South Africa shared this position with 14 other countries at the time, such as Brazil, Korea and Greece. In his analysis McGowan noticed that between 1965 and 1990 the country's GNP per capita underwent less than half of the annual rate of growth that was experienced by the group as a whole; in fact its position at the forefront of developing societies had been gradually diminishing since 1965 (McGowan, 1993:35).

This development could not be attributed to a sudden boom in semi-peripheral growth that left South Africa behind, but rather a result of the fact that it had become poorer in per capita terms since 1980. South Africa moved from a period between 1919 and 1975 where it enjoyed an average annual GDP growth rate of above five percent, to one between 1975 and 1990 where its annual rate of growth collapsed to only 1, 8 percent. This decline was exacerbated at the time of writing during the early 1990s when the country endured three consecutive years of negative GDP growth (McGowan, 1993:39). It is not surprising that this led, in conjunction with the

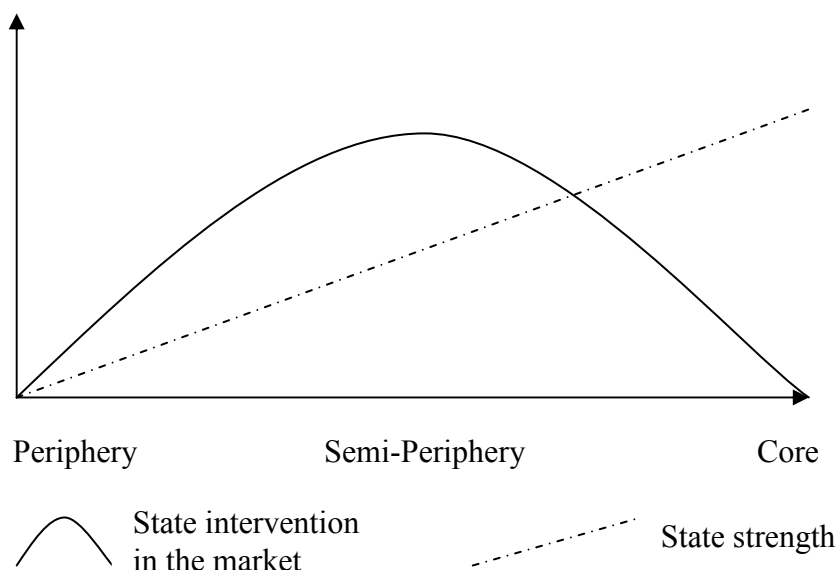
increasing marginalisation of the disenfranchised black population in particular, to a somewhat negative projection for the future maintenance of South Africa's position within the world system, let alone its ascent.

The final factor that McGowan analysed was that of cultural strength. He pointed out how heavily the current hegemon, the United States, has relied on the interconnections of cultural, political/military and economic strength. The cultural sphere comprises what is termed "Coca Cola" culture, world-renowned institutions such as Harvard and MIT, and "high" cultural organisations like the Metropolitan Opera in New York (McGowan, 1993:41). McGowan argues that people often mistakenly attribute South Africa's linguistic, cultural, ethnic and racial diversity to an inherent cultural weakness that results in political instability and violence, which also limits its economic ambitions. This viewpoint overlooks a number of features that provide South Africa with significant cultural strength thereby increasing its sphere of influence internationally. The country's primary cultural strength lies in the fact that it is a member of the English-speaking world; it shares this advantage with only a handful of upper-middle income countries. Other strengths include its artistic and sporting achievements as well as the quality of its universities and technikons (McGowan, 1993:342-43).

Andreasson (2001) conducted an interesting study where he examined whether the MWS perspective could shed some light on the processes of democratisation in Africa. After comparing semi-peripheral South Africa with peripheral Zambia, he claimed that South Africa's more advantageous position in the world-system meant that it was better equipped to safeguard democracy. This mirrors McGowan's argument that a key characteristic of core states is that they share strong democratic principles. The main value of Andreasson's work in relation to this thesis lies in locating the two African countries in the modern world-system, and like McGowan he contends that South Africa is located in the semi-periphery. He does this by measuring South Africa's economic characteristics, giving special attention to the nature of its exports and imports. Andreasson preceded this by providing the necessary historical understanding of how South Africa was incorporated into the modern world-system and how it reached its current semi-peripheral status after World War II.

Several other MWS theorists (Wallerstein, 1979; Arrighi and Drangel, 1986; Martin and Wallerstein, 1990; Ahwireng-Obeng and McGowan, 1998b) have also located South Africa in the semi-periphery of the modern world-system. Wallerstein (1979) based his locating of South Africa in this group on his assessment that it formed part of the middle ground in a system of unequal exchange in terms of the nature of its exports, its wage levels and profit margins. Politically he based his assessment on the high level of the state's control of the internal and international market, which he argues is a characteristic of semi-peripheral states, far outweighing the level of control that is experienced in the periphery and the core. This comparison is illustrated in figure 1.

**Figure 1: Comparison between State intervention in the Market and State strength**



Source: McGowan, 2007

Arrighi and Drangel (1986) agreed with South Africa's semi-peripheral status despite contesting the validity of Wallerstein's methodology. They argued that Wallerstein's extensive list of the semi-periphery contained states with dissimilar wage levels and profit margins that exported a diverse range of products. They also emphasised that his proposed semi-peripheral group of states implemented inconsistent policies toward the internal and global markets. Arrighi and Drangel purported that GNP per capita should be used when attempting to locate states in the global division of labour. They

placed South Africa in the semi-periphery using this indicator during the period between 1938 and 1970. Martin and Wallerstein (1990) as well as Ahwireng-Obeng and McGowan (1998b) made use of trade statistics and patterns in order to locate South Africa in the semi-periphery. The former used these patterns to identify the economic relationships that it holds with core and peripheral states; whereas the latter used them to observe the country's perceived hegemonic role in a region comprised of peripheral economies. Both sets of theorists argue that long-distance commodity trade patterns determine a state's role in the modern world-system.

Mingst (1988) emphasises the importance of using economic complexity when locating a country in the semi-periphery. Economic complexity can include the movement from an economy that is based on agriculture to one that experiences growth in the manufacturing and service sectors. It can also include the shift from a dominant trading partner to multiple trading partners. An indicator of economic complexity should involve an analysis of the composition of GDP per sector by comparing the percentage share of agriculture, manufacturing and services. The nature and composition of imports and exports is also important; agriculture forms a high percentage of exports in peripheral countries, whereas they import a high percentage of manufactures due to the low levels of industrialisation (Mingst, 1988:261-265).

Mingst emphasises the significance that the strength of state machinery and cultural integrity play in locating a state in the modern world-system; they also comprise important components for national development. Some of the aforementioned theorists argue that core states possess strong state machineries; this refers to the core government's ability to control the actions of the population within its boundaries, a characteristic that peripheral countries do not possess whilst lying somewhere in between in the semi-periphery. This goes against Wallerstein's notion that semi-peripheral states require stronger political machinery than core and peripheral states in order to control the domestic and international market. Studies – such as Arrighi, 1985 – appear to support Wallerstein's formulation of state primacy in political and economic activity. An analysis of the strength of state machinery is a complex task in view of the fact that there is little consensus pertaining to the measurement of state strength. A good indicator is whether the authority of the president has been

challenged. Even though stability of rulers does not necessarily equate to state primacy, other elements of stability include an institutionalised state structure, a growing political, economic, and social elite in the political realm, and having a single party that absorbs rather than mobilises politics (Arrighi, 1985; Mingst, 1988:261-265; Wallerstein, 1979; Zartman and Delgado, 1984:3)

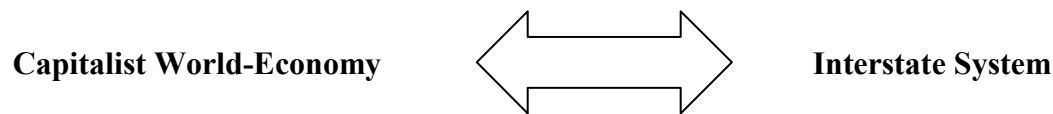
Even though the term ‘cultural integrity’ is not widely used by MWS theorists anymore, Wallerstein (1984) defines the cultural component as “the degree of fit between the values of the state and society” (Wallerstein, 1984:1). The cultural integrity enjoyed by semi-peripheral states resembles that which is found in the core and which is generally absent in the periphery. Mingst agrees with McGowan’s contention that the prevalence of a number of ethnic groups within a state leads to the formation of a stronger national identity; she also emphasises the importance that a common language plays in promoting a degree of cultural integrity, or homogeneity. Societal congruity is also promoted through the government’s promotion of education, healthcare, and employment, thus reinforcing the notion of an integrated society (Mingst, 1988:261-265).

## **2.3. Theoretical Overview**

### **2.3.1. The Origin and Structure of the Modern World-System**

Wallerstein believes that the modern world-system developed out of the remnants of feudalism during what became known as the “long sixteenth century” (1450-1640) in Europe. It operates with capitalism as its mode of production and possesses a hierarchical international division of labour (Wallerstein, 1974b:229; Wallerstein, 1974c:406-407). The capitalist world-economy is driven by the enduring need of capital accumulation and has enlarged to the extent that it has incorporated the entire planet. It is based on the market through which monetary exchange takes place in the public arena (Hobden and Wyn Jones, 2005:206; Wallerstein, 2004). The interstate system is the political equivalent of the capitalist world-economy which combines to form the current world-system; one of its primary traits is that it prevents a single state from controlling the investment activities of all the capitalists (Sanderson, 2005:182). It “is the political side of capitalism, not an analytically autonomous system, and its

survival is dependent on the operation of the institutions which are associated with the capital-accumulation process” (Chase-Dunn, 1981:19).



Source: McGowan, 2007

Moreover, the capitalist mode of production requires the continuation of interstate competition. The competitive nature of the relationship between capitalists of different countries ensures that success is never maintained for long periods, thus preventing the emergence of a world-empire through military power (Chase-Dunn, 1981:26). Wallerstein (1974b:16) captures the complexity of this relationship by stating that

“[i]n a capitalist world-economy, political energy is used to secure monopoly rights (or as near to it as can be achieved). The state becomes less the central economic enterprise than the means of assuring certain terms of trade in other economic transactions”.

### **2.3.2. Conceptualisation**

#### **2.3.2.1. World-Systems, World-Economies and World-Empires**

According to Wallerstein, ‘world-systems’ are the primary form of social organisation; they either take the form of world-empires or world-economies. The main difference between the two lies in how the decisions about resource allocation are made. Resources are redistributed from the periphery to the core through a central political system in a world-empire. This is done through the market in the world-economy, in the absence of a centralised world authority. The end result is the same, however, as resources flow to the core from peripheral areas (Hobden and Wyn Jones, 2005:206). Wallerstein identified Holland, Britain and the United States as the only hegemons of the capitalist world-economy to date (Sanderson, 2005:182).

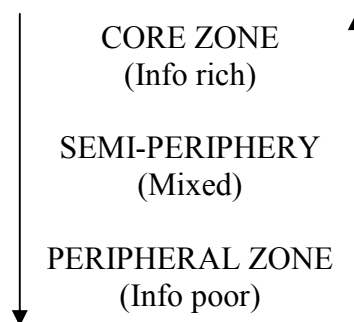
#### **2.3.2.2. Division of Labour in the World-System**

The division of labour within the world-system consists of the core, semi-peripheral, and peripheral zones. The core benefits the most from the capitalist world-economy whereas peripheral nations experience the other extreme. Semi-peripheral states are



located in between the core and periphery, and stabilise the capitalist world-economy due to their ability to protect themselves to a degree from core exploitation whilst being able to dominate the periphery through favourable trade patterns; this stability is attributed to the fact that the core is not faced with a unified resistance. It is unlikely that a unified periphery will be able to cause the downfall of the world-system because the semi-periphery depolarises the relationship between them and the core, and actually profits from the exploitation of the periphery (Wallerstein, 2000:88-90). The core, semi-periphery, and periphery make up the spatial dimension of the world-economy, which refers to its vertical dimension that is characterised by a hierarchical structure. The historical trajectory of the system can only be explained accurately by analysing it in conjunction with the temporal dimensions of the world-economy, which will be looked at in the next section (Hobden and Wyn Jones, 2005:208).

The core nations direct global production through their economic strength and are characterised by their significant global influence, substantial wealth and technological development. Peripheral states, in contrast, have weak economies and rely on the exports of primary products. They also experience widespread poverty, high population growth, environmental degradation, and possess a low level of technology. These conditions are not favourable for upward mobility in the world-system. Semi-peripheral states share aspects of the core and the periphery. They dominate the periphery through the exchange of finished goods for raw material products and are in turn dominated by the core through their need for investment. These countries undergo a process of rapid industrialisation and possess a relatively high level of technology (Burns et al, 2000).

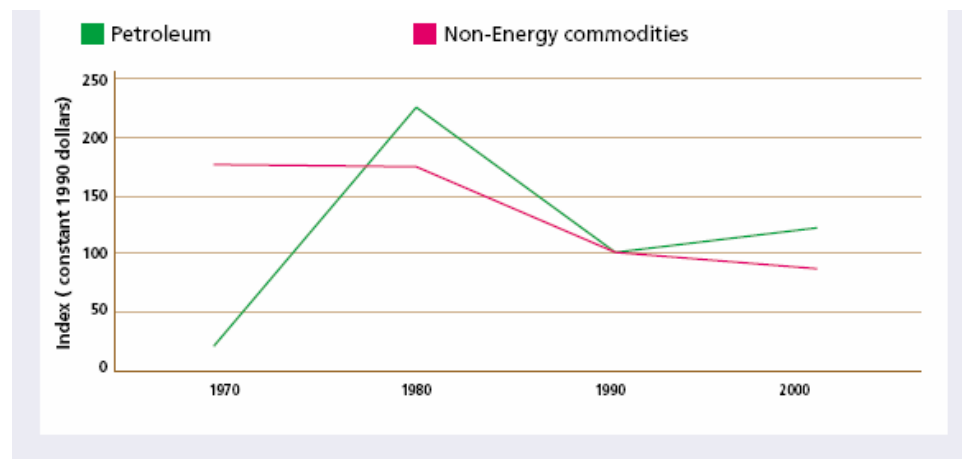


Source: McGowan, 2007

### 2.3.2.3. Cyclical Trends

On top of being expansionary and evolutionary the capitalist world-economy also experiences cyclical trends. The first of Wallerstein's temporal dimensions takes the form of Kondratieff and hegemony cycles. The second dimension refers to secular trends, which assesses the long-term impact of each cycle; whereas the third aspect of the temporal dimension describes the contradictory elements found within the system itself, whereby short and long term benefits work against each other until the world-system experiences a crisis that will lead to its ultimate demise, replacing it with a new system. Kondratieff cycles occur over a 40-60 year period and are characterised by a phase of expansion which is then followed by a phase of contraction, also known as A and B phases. Peripheral economies suffer the most during the period of contraction, or B-phase, due to the drop in global commodity prices. These countries depend heavily on commodity prices for their economic growth in light of the fact that they serve as a major source of their foreign earnings (Figure 2 illustrates the drop in global commodity prices since the late 1970s). Hegemony cycles refer to the moderately short periods when the world-economy is controlled by a single core power; this takes place in between periods that are characterised by a multipolar power structure (Hobden and Wyn Jones, 2005:208-209; Sanderson, 2005:182).

**Figure 2: Commodity Prices, 1970 to 2000**



Source: Global Economic Prospects 2001

It is important to note the impact that the expansion and contraction of the world-economy has on the global division of labour. New markets for new products are created more easily during periods of economic expansion, as there is little need to

compete for old ones. According to Wallerstein (1974a), the tables are turned during periods of contraction when core states frantically compete to reclaim old markets; this period is characterised by the potential slippage of core states. He adds that the prospects for peripheral states moving towards a semi-peripheral status are limited during this period, whereas semi-peripheral states are provided with an opportunity to attain core status. The bargaining power of the weakest portion of the world-economy is restricted first during world economic downturns. The reason for this is that the decline of world output diminishes the market for the exports of peripheral states; this occurs before the prices of their imports are reduced (Wallerstein, 1974a:20).

“Peripheral countries may even discover new protectionist barriers against their exports as other countries seek to "take back" areas of production once thought to be of such low profitability as to be worthy only of peripheral countries. To be sure, a few peripheral countries who have the relatively strongest technological base may use the impetus of the crisis to push forward with import substitution. But the bulk of the periphery simply stagnates” (Wallerstein, 1974a:21).

Wallerstein notes that semi-peripheral states undergo a different experience during these economic cycles. They are highly dependent on the core during an expanding world-economy as they rely on these states to acquire a share of the world market against other semi-peripheral states. It is for this reason that semi-peripheral states are the strongest advocates of the status quo, whilst they fiercely condemn the actions undertaken by other semi-peripheral states that are opposed to this. The development of these countries during periods of economic expansion is reliant on the reinforcement of dependency patterns vis-à-vis core states. During periods of world economic contraction the development of new industries is limited in the core resulting in these states having to compete with each other in order to prevent slippage. Interestingly, the bargaining relationship between core and semi-peripheral states changes to one whereby the former courts the latter in an attempt to channel its products (Wallerstein, 1974a:21; Wallerstein, 1976:464-466).

Semi-peripheral states, according to Wallerstein, have the ability to expand control of their home market and their neighbouring peripheral markets at the expense of core producers, which enables the group to benefit from the new exchange by pushing for structural and institutional change. Terlouw (2003) agrees that semi-peripheral

countries are provided with an opportunity to expand during periods of system wide economic stagnation, but points out that the nature of the system is such that only a few of them are able to capitalise on the situation completely by being promoted to the core. Wallerstein adds that the few semi-peripheral states that are able to progress to the core during a downturn, do so at the expense of other semi-peripheral countries by acquiring a significant portion of the group's collective advantage (Terlouw, 2003:75; Wallerstein, 1974a:21; Wallerstein, 1976:464-466).

### **2.3.3. Critique**

There are four major criticisms of Wallerstein's world-systems theory. It is argued that too much attention is placed on peripheral exploitation that was brought about by Wallerstein's alleged overemphasis on the interdependence between states in the world-system (Sanderson, 2005:183-186). He attributes the exploitation of the periphery by the core to unequal exchange but has been criticised for not providing a detailed explanation for this point of view (Shannon, 1996:148). The theory has also been criticised for only using external factors in its analyses. Sanderson (2005), for example, argues that the endogenous characteristics of societies are overlooked when the world-system is used as the unit of analysis. Cultural, political and geographical factors all play a part in a society's development and the argument is that the MWS theory undermines the role that a society's history played in its development, which acts against the historical approach that the world-systems theory claims to undertake (Sanderson, 2005:187-188).

Another criticism laid toward world-system and dependency theorists' is their depiction of North-South relations as one of the 'development of underdevelopment'. Ultimately, accurate data is needed to distinguish which side is correct regarding this issue (Hobden and Wyn Jones, 2005:218). The final criticism of Wallerstein's attempt to explain the fundamental nature of the world-system involves him placing too much emphasis on economic relationships. Skocpol (1977) points out these limitations in Wallerstein's definitions of the core and periphery. According to Wallerstein, technological development and world-market opportunities are the primary factors for determining a society's position in the world-system and for shaping its position in the world division of labour. She also disagrees with the degree of importance Wallerstein gives to a society's position in the world-economy as the sole determinant of where it

is located politically and militarily in the world-system. This is seen in his explanation of the exploitation of the periphery by the core, serving as the fundamental relationship among parts of the system (Shannon, 1996:138).

## **2.4. The MWS Approach for Ascent in the Modern World-System**

Arguably, Wallerstein's most important piece of work was published in the *African Studies Review* in 1974. The paper entitled 'Dependence in an Interdependent World: The Limited Possibilities of Transformation within the Capitalist World Economy' expressed the strategies needed for upward mobility in the international division of labour from the MWS perspective. The final section of this chapter will focus on the features of each strategy with the intention of finding those that complement South Africa's growth aspirations.

### **2.4.1. Overview**

Capitalism is not a system of free competition for all sellers, instead it is one in which the relative freedom of competition requires an economic advantage of upper strata - or owners of the means of production - that is so comprehensive that the operation of the market needs no interference in order to maintain the existing system of stratification. This does not translate into a static hierarchy within the division of labour. Instead, there is constant jostling between countries as to who occupies the range of positions in the hierarchy of production, profit, and consumption (Wallerstein, 1974a:1). The primary motivating force behind the operation of the capitalist world-system is the disparity of reward. It is for this reason that the simultaneous development of states is not possible within the system, resulting in the inevitable widening gap between the core and the periphery. The countries that are able to develop do so at the expense of others (Wallerstein, 1974a:7).

Strategies for ascent in the modern world-system constantly change and are inherently different at varying stages of development. Wallerstein (1974a) notes that development strategies are often mistakenly only described as being from the periphery to the core; development is a gradual process however and differs considerably for states progressing from the periphery to the semi-periphery and from the semi-periphery to the core. A state cannot for example move from being predominantly an exporter of low-wage products to being a substantial exporter of

high-wage products whilst also being the major customer for these products. Every core power has had to undergo this process of moving from its peripheral status to the semi-periphery, and from its semi-peripheral status to the core. Hout (1996) argues that both export-led growth and import substitution have been used in combination by states giving greater weight to one or the other in varying sectors of the economy and at different stages of development. Wade (2004) supports this argument by stating that the neoliberal development agenda, which promotes open markets, does not reflect the history of development experienced in developed European and North American countries. Chang (2003) agrees with this sentiment and purports that infant industry protectionism and export subsidies formed an integral part of development for the majority of these countries.

Furthermore, there are also differences between states within each category. Peripheral states, for example, do not all find themselves in an equal position to undertake a shift in status. This is clearly illustrated by the fact that some peripheral states have managed to change their status, whereas others have not; the same can be said for semi-peripheral states. Ultimately, only a limited number of peripheral states are able to fit into an expanding world market or conquer a portion of a contracting one during a specific time period (Wallerstein, 1974a:7-8).

#### **2.4.2. The Three Strategies for Ascent in the Modern World-System**

Wallerstein (1974a:9) proposes three strategies for development in the modern world-system, namely the strategy of seizing the chance, of promotion by invitation, and the strategy of self-reliance. These strategies are more similar than they seem to be at first glance and there also appears to be a high degree of compatibility between the former two approaches. The finer details and the importance of this relationship will be clearly illustrated in the remaining chapters. Wallerstein added a fourth approach which is only centred on semi-peripheral ascent. This approach however is not meant to be viewed in isolation but rather in combination with the previous three strategies.

##### Seizing the Chance (Import Substitution)

Seizing the chance, also referred to as import substitution industrialisation (ISI), is an opportunity that presents itself during moments of world-market contraction. During this period, peripheral states are generally faced with a rise in unemployment,

balance-of-payments problems, and a decline in state income. This situation is caused by a higher drop in the price level of primary exports from peripheral states than the reduction that occurs in the price level of technologically advanced industrial exports from core states (Wallerstein, 1974a:9-10). The primary objective of the ISI approach is to displace imported manufacturing goods through the strengthening of domestic industries; key instruments include the financial and fiscal support of the domestic industry, hefty tariffs and the promotion of state-owned companies (Haggard, 1990:161-188).

Import substitution as a developmental strategy can help peripheral states alleviate some of the difficulties that they experience during world-economic contraction. It is referred to as seizing the chance because aggressive state action is utilised so that it can benefit from the diminished political position of core states and the reduced economic influence of domestic opponents of these policies. This approach has traditionally resulted in an increase in industrial activity in these countries, such as that experienced by South Africa, Brazil, and Mexico in the wake of the Great Depression of 1929. The latter two countries and several other Latin American countries continued to use the strategy and experienced substantial economic growth until the 1980s when the United States pressurised them to adopt import liberalisation and privatisation as opposed to state protectionism (Kennedy, 1993:202-207). The peripheral states that benefit from this situation need to be reasonably strong, with an existing industrial base so that it can be enlarged at the opportune moment (Wallerstein, 1974a:10). The importance of this requirement is captured by Dos Santos (1971):

“The capacity to react in the face of these [economic] crises depends in large part on the internal composition of the dependent countries. If they possess a very important complementary industrial sector, the latter can profit from the crisis in the following manner: In the course of the crisis, the export sector is weakened, imports diminish and their cost tends to rise because of the financial crisis which devalues national currencies....The consequence is thus an encouragement of national industry which has a relatively important market, a high sales price, and weak international competition; if this sector has some unused capacity, it can utilize it immediately, and with a favorable state policy, it can use the small existing foreign exchange to import machines cheaply, for the surplus production in dominant countries causes their prices to go down relatively” (Dos Santos, 1971:737).

The problem with this strategy is that it leads to technological dependence because the prospective semi-peripheral states become reliant on the importation of manufactured primary materials and on machines from core states. This dilemma is exacerbated today due to the global level of technology (Wallerstein, 1974a:10-11). National monopolies are created as a result of this technological dependence, due to the fact that the level of output far outweighs the scale of the initial market. A substantial amount of investment through imports is required in order to increase the initial market. This monopolistic structure causes a reduction in the volume of investments that would otherwise have occurred with existing resources (Merhav, 1969:59-60).

This developmental alliance creates significant internal contradictions in countries. The needs of the industrial bourgeoisie and the urban workers converge initially as they support certain kinds of state action. However, their interests diverge after this as they oppose each other in terms of wage scales; this alliance can only survive at the expense of the agricultural and traditional sectors, by creating monetary and tariff policies that encourage a gradual incorporation of individuals into the industrial system (Wallerstein, 1974a:11). Countries that have used this approach to move into the semi-periphery have experienced tremendous political pressure from the agricultural sector; events in Latin America and Eastern Europe demonstrate this. Marini (1969:85-86) provides a solution for the technological dependence and the internal political pressures from the agricultural sector that these countries endure. He proposes that these countries adopt an outward approach whereby an external market for their manufactured products is secured. This alleviates the inability of the internal market to absorb the increase in production, thus the country has the opportunity to continue on its road toward technological modernisation whilst reinforcing its alliance with the large landowners. The South African government incorporated the same process during its transition into the semi-periphery. The country's endorsement of a common market in southern Africa is a reflection of its outward policy (Lombard *et al*, 1968).

Wallerstein (1974a) summarises this strategy for ascent as follows:

"The image thus far projected is of an attempt by an indigenous "developmentalist" sector in a peripheral country to "seize its chance" and strengthen its "industrial sector," thus becoming a "semi-



peripheral" country. Then, we have suggested, over time the combination of internal pressure (the "agricultural sector") and external force majeure ("technological dependence") leads to the recuperation of the rebel and the stabilization of the new economic structures such that the development of an "internal market" originally projected is abandoned and an "external market" is substituted, but one in which the semi-peripheral country largely serves as a purveyor of products it is no longer worth the while of the core country to manufacture" (Wallerstein, 1974a:12-13).

### Promotion by Invitation (Export-led growth)

Wallerstein (1974a) explains that the path of promotion by invitation differs from the path of seizing the chance in two instances. Firstly, this approach – which works more closely with external capitalists – is more likely to occur in moments of global economic expansion than in moments of contraction; the US for example supported the development of Korea and Taiwan during the world-economy's A-phase after World War II. Core states are prone to do away with this collaborative development when they undergo economic difficulties themselves. Secondly, it tends to be adopted by countries with less prior industrial development than the first approach. Furthermore, countries that use this strategy tend to be involved in light industries that are consumer-oriented, as opposed to business-oriented and less capital intensive than the heavier industries that countries such as Brazil, Mexico and South Africa engaged in using the ISI approach (Haggard, 1990:51-99; Wallerstein, 1974a:14). Korea and Taiwan adopted the export-led growth strategy in the early 1960s after having initially implemented the ISI approach after World War II. They shared key elements of economic growth that were adopted by the East Asian 'tigers', such as a commitment to exports as opposed to imports, the maintenance of a low currency value, the protection of local industries from foreign competition and the capitalisation of the open international trading regime (Kennedy, 1993:196-200).

According to Wallerstein (1974a), this approach came about due to increasingly sophisticated multinational corporations that became aware of the benefits of operating in collaboration with state bureaucracies. The expansion of direct investment across borders developed due to political impediments to the growth of enterprises in the core as well as the prevalence of infant industry protectionism. Governments of underdeveloped nations are weak and pose little threat to the overall financial position of the outside investor. Hymer (1972) compares this relationship to that of a US state and a national corporation. Any share of the MNC's profit that the

country may have gained through taxes is negated by the competition among peripheral states to attract corporate investment (Hymer, 1972:128; Wallerstein, 1974a:13). Nevertheless, these underdeveloped countries compete for this investment due to the distinctive advantages that it offers. Amin (1971) illustrates this in his analysis of the Ivory Coast's path of development. He pointed out that in some twenty years the Ivory Coast progressed from being a primitive country in 1950 to one that had been well integrated into the capitalist world-economy. Traditional chiefs and immigrant workers are some of those that prospered from foreign capitalist enterprise, whilst unemployment in Ivory Coast's urban areas was considerably lower than what had been experienced in those located in older African countries (Amin, 1971:92; Wallerstein, 1974a:14).

#### Self-reliance (Closed-national strategy)

Wallerstein's (1974a) third road of development for a peripheral state – which had been attempted by eastern European countries and others such as Tanzania – is that of “self reliance”. Chief components of the self-reliance strategy include the intolerance of the private sector and the endorsement of collectivised agriculture, state trading monopolies, state owned enterprises, and price, wage, interest and exchange rate control. Several states rejected the market in favour of this strategy during the post-war period, which had been encapsulated by the Soviet model of central planning. China and the Soviet Union adopted the approach and experienced significant GNP growth rates during the 1950s and 1960s; the approach lost its popularity during the 1970s and 1980s due to persistent economic stagnation that resulted in the movement from planned to market economies. This shift occurred due to several shortcomings in the self-reliance approach such as a lack of incentives and sizeable sectoral distortions; key successes however included relatively equal income distribution, progress in achieving industrialisation, the establishment of a welfare system, and the sufficient provision of education, job creation, housing and healthcare (Harvie, 1999:1091-1092; Wallerstein, 1974a:14-15).

Green (1970) emphasises that the implementation of the closed-national strategy of structural change is fraught with difficulties for peripheral states, particularly in Africa. This is due to the slow pace at which economic decolonisation and development will take place. There have been modest success stories nonetheless,

such as Tanzania's carefully pursued strategy of development. Wallerstein stresses, however, that the country's success is a rarity among peripheral states pursuing this strategy. Tanzania's model of self-reliance was uncommon in Africa which is the reason that there was little external pressure against her policies (Green, 1970:284-285; Wallerstein, 1974a:14-15).

### **2.4.3. Strategies for Semi-Peripheral Ascent**

The discussion thus far has been on peripheral ascent into the semi-periphery, the focus now shifts to how semi-peripheral states have historically made it into the core group of countries. Both Germany and the United States made this transition in the nineteenth century, whereas England had already gained membership by the time of the seventeenth-century recession; countries lower in the hierarchy of core states that made this shift include Sweden, Belgium and Canada (Wallerstein, 1974a:16).

According to Wallerstein (1974a), a review of what the classic mechanism for advancement in the world-economy entailed needs to be undertaken in conjunction with the impact that wage differentials have had on the structure of the world-economy. The general wage level differs considerably from country to country, the trend however is that it remains comparatively high in core states and low for those in the periphery. Looking at elements in a national society that determine its wage level, it is clear that it is the employer's aim is to pay its employees as little as possible whereas employees in turn seek to receive the highest possible wages for their services. Wage levels are also important as they affect the sale of products both internally – serving as a motive to push for higher wages – and externally, a motive for lower wages. Added to this is the requirement to adhere to legislation for minimum wage levels that is brought about by the collective organisation of workers, regardless of market conditions. The inflexibility of national wage levels, coupled with its propensity to equivalence in international profit margins, leads to what MWS theorists' term unequal exchange within the world-economy. Wallerstein argues that the inflexibility of national wage levels is what has historically allowed semi-peripheral states, with their medium wage levels, to shift to core status (Wallerstein, 1974a:17).

It is of paramount importance for semi-peripheral states attempting to make this shift that they possess a large enough market for the national products that they produce in a cost-effective manner. Successful countries have adopted various techniques to enlarge their markets for national products. One method to achieve this aim involves the use of quotas and tariffs to manage the entrance of other producers into the state-controlled market. Another option that states have at their disposal is to expand their political boundaries by conquering their neighbours through the use of force, or by means of unification through political and economic unions. A third way to affect both the home and external markets is to lower the costs of production instead of increasing the costs of imported goods. This can be achieved by allocating subsidies for production which will effectively increase the cost of other goods relative to the product that has been subsidised; another option for lowering the costs of production is to reduce wage levels, the key however is to ensure that the opposing resultant trends of increasing external sales and jeopardising internal sales produces a positive financial outcome. The fourth method that can be used to enlarge a semi-peripheral state's market is to increase the internal level of purchasing power; coupled with the fact that transportation costs are basically nullified, it will almost certainly bring about an increase in internal sales. If purchasing power is boosted through higher wage levels, it produces a reversal of the previous method, as internal sales are increased at the risk of lowering external sales. The final method that can be adopted is to expand the market for a country's products through ideology or propaganda, by affecting the tastes of predominantly its internal consumers (Wallerstein, 1974a:17-18).

It is clear that semi-peripheral states require optimal cost levels and need to possess a certain absolute size of the market in order to ascend in the world-economy. In addition, this threshold is constantly elevated due to the continuous advancement of technology involving machinery with ever increasing components of fixed capital. Wallerstein emphasises the important role that government plays during this stage by stating that "the possibility of a state passing from semi-peripheral to core status has always been a matter of juggling elements that move in varied directions to achieve a nearly perfect mix" (Wallerstein, 1974a:18). England created a favourable mix in the "long" sixteenth century when it combined a rural textile industry with a process of agricultural development of arable land in medium-sized units. It also formed a new market of low-cost textiles to be sold to less affluent citizens, wealthier peasants and

the new middle stratum of artisans. Germany benefited from a medium wage level in the nineteenth century as it created a significant internal market during the historic legacy of a shrinking artisan class. Germany's cost of production was competitive with Britain due to transportation advantages (Wallerstein, 1974a:18).

Wallerstein (1974a) brings up an interesting mix that also worked, known as the 'white settler phenomenon', which is characterised by high wage levels that precede industrialisation. These areas were located a considerable distance away from world centres of production, providing protection against imports due to high transportation costs. At the time of writing, Emmanuel (1972) noted that four of the five British colonies of settlement, namely the United States, New Zealand, Canada and Australia, had the highest per capita incomes in the world. South Africa, however, had only been at the level of Greece or Argentina, despite having the same colonists and links to Britain. Emmanuel explains that:

"One factor alone was different, namely, what happened to the indigenous population. Whereas in the other four colonies the total extermination of the natives was undertaken, in South Africa the colonists confined themselves to relegating them to the ghettos of apartheid. The result is that in the first four countries wages have reached very high levels, while in South Africa, despite the selective wages enjoyed by the white workers, the average wage level has remained relatively very low, hardly any higher than that in the underdeveloped countries, and below that of the Balkans, Portugal, and Spain" (Emmanuel, 1972:125).

It is doubtful whether the high-wage route, in relation to the wages of core powers, can be repeated again in modern times. The current high degree of technological dependence and the fact that technology has advanced to the point that world distances do not matter anymore makes it difficult to recreate the situation that led to a settler population being drawn toward such a high standard of living again (Wallerstein, 1974a:18). Even though high wages are beneficial in terms of unequal exchange, states cannot simply raise their wage levels because it is also a function of low absolute competition. Capital flows to high profit areas at all times despite there being a lag. What happens in actuality is that whenever a producer is undercut in the cost of production, over time a new specialisation will be unearthed that requires a temporary rare skill, which is free from competition on the part of low-wage countries in the international division of labour (Wallerstein, 1974a:20; Emmanuel, 1972:145).

Although seemingly counterproductive, Brewer (1990) explains that mechanisation caused by an increase in wage levels can actually be beneficial to capitalist development in the country where these wage levels are raised. He states that even though mechanisation essentially signifies development one needs to investigate whether this will lead to sustained development. Emmanuel (1972) argues that the social character of work and production is altered by mechanisation, laying the groundwork for additional wage increases. High wages thus result in a high organic composition of labour, which denotes that a substantial proportion of the total labour force is comprised of skilled workers and professionals. He adds that even if wage levels and scales were the same all over the world, areas that possess a high proportion of skilled workers would experience significantly higher per capita income levels and larger markets as a result. The fact that South Africa possessed a substantial amount of cheap and unskilled labour is a precise indication of why the country developed to a lesser extent when compared to other British colonies. It must be noted that Emmanuel's views are by no means universally accepted, he does however provide a compelling argument for the connection between unequal exchange and capitalist development (Brewer, 1990:200-222).

## **2.5. Key Indicators used in this Study**

This study will expand on the work covered by McGowan (1993), Andreasson (2001) and others by providing a contemporary analysis of South Africa's current location in the world-system and its prospects for growth. A good understanding of the interdependent factors coupled with an insight into the future trajectory of the world-system will provide the platform necessary to suggest appropriate strategies that put South Africa in good stead for achieving core status.

### **2.5.1. Locating South Africa in the Modern World-System**

Wallerstein uses three dimensions to locate the semi-periphery between the core and the periphery in the modern world-system, namely the strength of state machinery; the complexity of economic activities; and cultural integrity (Wallerstein, 1974b:349). The following indicators (figure 3) will be used in the analysis of South Africa's current location in the modern world-system; they represent a combination of the indicators that were used by key authors (McGowan, 1993; Andreasson, 2001;

Wallerstein, 1979; Arrighi and Drangel, 1986; Martin and Wallerstein, 1990; Ahwireng-Obeng and McGowan, 1998b) in this chapter. These indicators have been combined in order to make the assessment as all encompassing as possible.

**Figure 3: Indicators representing South Africa's position in the Modern World-System**



## **2.6. Conclusion and Summary of Proposed Strategies for South Africa's Development**

McGowan, Andreasson, Wallerstein and several others, purport that South Africa is located in the semi-periphery of the modern world-system. These assessments made use of differing indicators but fall within the broader political, economic and sociocultural categories. This chapter has provided a detailed description of the proposed strategies for a state's progression in the modern-world system according to the MWS theoretical approach. The proposed economic strategies included seizing the chance, promotion by invitation, self-reliance and the semi-peripheral growth strategy. Seizing the chance refers to the import substitution approach that is characterised by the creation of strong domestic industries and is carried out more easily during the phase of economic contraction. Promotion by invitation is an approach to economic growth that prioritises exports and attempts to reduce the reliance on imports as much as possible; this occurs more easily during the world-economy's A-phase of growth. The self-reliance approach is a state-dominated closed-national strategy that prevents the creation of an active private sector. The strategy is not associated with a specific phase of growth in the world-economy but is implemented more easily during a phase of economic expansion. States that adopt this approach are also affected when there is a downturn in the global economy. The semi-peripheral growth strategy is not meant to be viewed in isolation but does emphasise the need for these states to have a large enough market for their products

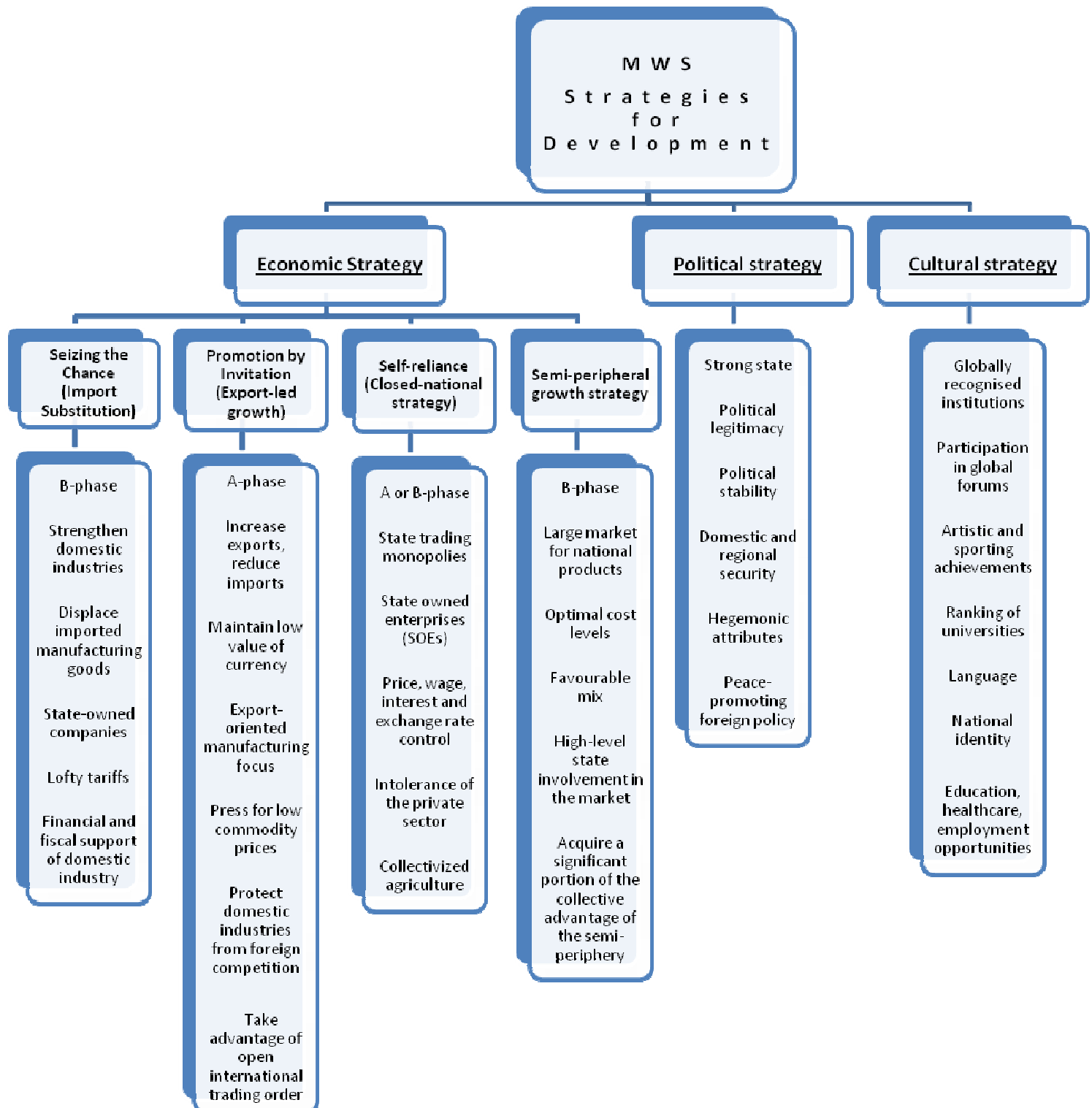
that are produced as cost-effectively as possible. The B-phase of the world-economy does provide an opportunity for a small amount of semi-peripheral states to make the shift to the core group of states.

Political and cultural strength and influence are also important components of national development. State strength requires political legitimacy and stability, domestic and regional security, and the use of foreign policy as a partnership-building tool; furthermore the state needs to be actively involved in its developmental process and should also exert a degree of political and economic influence over its neighbours, perhaps possessing the attributes of a regional hegemon. Cultural drivers of development include a state's active participation in international organisations and global forums, the creation of a strong national identity, artistic and sporting achievements, reputable academic institutions, and a common language for communication locally and internationally. Socioeconomic conditions are also important components of the cultural dimension as they play a key role in the reduction of divisive elements in society and foster of a unified culture, particularly in a multicultural society.

These strategies form the base for the remainder of the study that aims to apply them in its assessment of South Africa's prospects for growth. Figure 4 contains the characteristics of these economic, political and cultural developmental strategies. The next chapter will investigate how South Africa was incorporated into the periphery of the modern world-system and tracks the country's development to its current semi-peripheral status.



**Figure 4: Summary of strategies for development according to MWS theory**



## **Chapter Three**

### **South Africa's Incorporation into the Modern World-System**

#### **3.1. Introduction**

The third chapter will investigate South Africa's entry into and development within the modern world-system. It will explain how the country reached its current semi-peripheral status by tracking its development in two phases, namely the 1840s – 1920s and 1920s – present. The second half of the chapter will evaluate South Africa's current location in the MWS in order to ascertain whether it still possesses the characteristics of an advanced semi-peripheral country. This analysis will be carried out by adopting a combination of the indicators that were employed by the MWS theorists discussed in the second chapter. Utilising a broader spectrum of indicators provides a more thorough understanding of the country's current position in the modern world-system. These indicators include: assessing South Africa's gross national income per capita, the composition and growth of its GDP, the nature of its imports and exports, the level of technology and infrastructure, and its hegemonic attributes. Political and sociocultural elements will also be uncovered, looking beyond purely economic characteristics, in order to assess whether South Africa displays these semi-peripheral attributes on other levels too. Political indicators include foreign policy, military and democratic characteristics; sociocultural indicators comprise literacy rates, HIV/AIDS rates and university rankings.

#### **3.2. South Africa's Entry into and Development within the World-System**

##### **3.2.1. 1840s – 1920s: Incorporation into the Periphery of the World-System**

This section will begin by shedding some light on how South Africa was incorporated into the periphery of the modern world-system. It will track its first phase of development within this group up until its transition to the semi-periphery. Before any region can be incorporated into the capitalist world-system it needs to integrate its production processes into the interdependent production processes that make up the world-economy (Wallerstein, 1986:139). Despite the Portuguese discovery of the Cape of Good Hope in the 15<sup>th</sup> century, the first Europeans only settled in South Africa after Jan van Riebeeck's arrival in the Cape in 1652. As governor for the Dutch East India Company (DEIC), he ensured that meat, grain, and vegetables were produced for the crews of the company's ships. Efforts to export surpluses of wheat

and wine at the end of the 17<sup>th</sup> century were unsuccessful due to the large distances to European and Indonesian markets. During the 18<sup>th</sup> century, the sale of foodstuffs to warships passing the Cape served as the only significant export market; other than the small, but long-established, east coast trade in gold, ivory and copper with Arabs (Andreasson, 2001:189-190; Chase, 1967:5-6; Fourie and Mohr, 2004:84).

According to Wallerstein (1986), It was not until the first half of the 19<sup>th</sup> century that South Africa was incorporated into the periphery of the world-system. This event was preceded by an ineffective attempt by the British, the Cape's new occupier at the start of the century, to create a clearing house for the East by declaring the Cape as a free port. This setback was short-lived though, as the country gained entry through the creation of successful production processes that involved the Cape and Natal producing wool and sugar for Britain respectively. By 1842 wool had become the Cape Colony's most important export product after the roughly 4000 British immigrants, who had arrived during the 1820s, turned to animal husbandry (Fourie and Mohr, 2004:84; Wallerstein, 1986:139).

According to Wallerstein, political resistance and access to a large enough labour force for the new production processes, represent the two major impediments that need to be dealt with before a region can be successfully incorporated into the world-system. Political resistance in South Africa at the time was quelled through the colonisation by the British. Labour supply was a far more difficult challenge to overcome, however, as the participation of Africans in the colonial labour and commodity markets could not be assured due to the rigidity of long-standing internal social and production relations. It is for this reason that the labour requirements of settler agriculture ended up being met coercively, during the first half of the 19<sup>th</sup> century, through the provision of slave labour for the Cape and Natal (Wallerstein, 1986:140-142).

The South African economy had predominantly been based on agriculture since its incorporation. This changed dramatically during the 1860s and 1870s when the discovery of diamonds in Kimberley led to a boom in mining activity. Foreign capital flowed into the country as a result; other developments included the extension of railways and an upsurge in the need for various forms of communication. This laid the

foundation for what would be the South African economy's greatest boost, when gold was discovered in Witwatersrand a decade later in 1886. Gold is to this day still one of the economy's most vital products (Andreasson, 2001:189; Fourie and Mohr, 2004:84).

### **3.2.2. 1920s – Present: Emergence as a Semi-Peripheral Power**

This section will look at the next phase of South Africa's development which entails the progress that it made from being a new member of the semi-periphery to one which can be described as an advanced entity within this group of countries. Approximately half of the economy was still primarily based on agriculture and mining at the formation of the Union of South Africa in 1910; it is not clear whether it had attained semi-peripheral status at that point. Manufacturing accounted for around 4 percent of GDP at the time but this rose steadily to 7, 4 percent a decade later, as industrialisation was promoted through the policy of import substitution during the 1920s. The country needed to pass through a difficult period during the Great Depression, but economic growth and industrialisation increased significantly with the onset of World War II and the devaluation of South Africa's currency. Manufacturing overtook both mining and agriculture during the war years to become the country's best performing sector. Theorists agree that South Africa emerged out of World War II firmly entrenched in the group of semi-peripheral countries, as it produced an indigenous industrialist and capitalist class, due to greater import-substitution industrialisation (Andreasson, 2001:189; Fourie and Mohr, 2004:84; Martin and Wallerstein, 1990:102-103; Stadler, 1987:58-59).

#### **3.2.2.1. The Emergence of Politically-motivated Inequality**

Horwitz (1967) propagates that South Africa's protectionist policy, which began in the 1920s, marked the start of a period of 'Great Prosperity' for the country. The effect was felt immediately seeing that national income per head at the end of the 1920s was double the mark set at the end of the previous decade. Furthermore, national income per head doubled again at the end of the 1930s. He argues that the economic evidence of this affluent period was misleading in spite of the remarkable achievement, as the net wealth of African people did not improve under the land-labour controls enforced by the White polity. Through an understanding of political and economic dynamics, he noticed that economic growth was not the overriding

motive behind South Africa's protectionist policy when he looked at the political situation at the time. The policy was widely accepted as the polity understood that its implementation would ensure the increased employment of Whites, who were also referred to as 'civilised labour' (Horwitz, 1967:239-241,251).

The Government successfully dealt with the 'Poor White Problem' by integrating this group into industry, during a relatively short period of time. This process began with the formulation of the Customs Tariff Act of 1925 and the greater authority allocated to the Board of Trade and Industries, and continued up until the outbreak of World War II in 1939. The social system, created under the constitutional framework, produced skewed development and resulted in the African population being severely inflicted with underemployment and under-consumption. It is a well-known fact that the fiscal policy initiated by the Pact Government significantly stifled competition within South African industry, considering that protection was largely-based on protecting the high wage rates enjoyed by White labour. Horwitz puts the entire approach down to the Pact politicians attempting to guarantee votes by meeting the needs of Poor Whites seeking employment, who had been migrating by the thousands from a depressed agriculture (Horwitz, 1967:247, 251-253).

### **3.2.2.2. Trade Policy Reform**

South Africa continued to endorse an import substitution trade strategy after World War II through a system of import tariffs and quantitative restrictions. The introduction of the apartheid regime meant that South Africa was increasingly being politically and economically isolated by the rest of the world. The apartheid economy enjoyed sustained growth for almost two decades despite this, but began to show signs of strain in the mid-1970s. The economy stagnated after the 1973 oil crisis after a successful decade during the 1960s when the average GDP growth rate was 6 percent. The focus shifted to an export-oriented industrialisation strategy following a reassessment in the early 1970s after considerable doubt arose as to whether the old approach could provide further employment and growth in the economy. The Reynders Commission of Enquiry – created with the purpose of looking at the feasibility of expanding the export sector of the economy – suggested providing incentives to exporters (Andreasson, 2001:190-191; Holden, 1990:260-265).

The country's economic situation did not improve however as the average GDP growth rate declined to 1, 8 percent during 1980s and eventually fell to -1, 1 percent during the early 1990s. The period was characterised by mass riots by the black urban wage class, a decrease in gross fixed investment and private savings, high levels of unemployment and capital flight, and chronic balance-of-payments problems. It is evident that the dismal economic environment placed substantial pressure on the South African government, and was one of the key factors behind the eventual unbanning of the African National Congress (ANC) and the transition to democracy through South Africa's first democratically held elections in 1994 (Andreasson, 2001:190-191,199).

Holden points out that the major distinction between the development of South Africa and the NICs was that the former possessed considerable resource endowments, whereas the latter did not. Ironically, the abundance of resources retarded development in South Africa, essentially leading to deindustrialisation of sorts. What happens is that when the price of natural resources such as gold rises, real wages increase throughout the economy as labour shifts to the rapidly developing sector. The increase in real wages, as well as the appreciation of the currency in real terms due to greater exports, constricts the manufacturing sector. It is as a result of the slowing down of this sector that South Africa had not been able to reach the same level of specialisation in its manufactured exports as had been achieved in the East Asian NICs (Holden, 1990:271-272).

The country had made significant strides towards trade liberalisation by the beginning of the 1990s despite the political turmoil it experienced at the time. This meant lending itself to a more neutral trade regime; one which did not overlook the need for exports by solely endorsing production for the domestic market. According to Bell, South Africa had adopted three of the four principal attributes of trade liberalisation by 1990, namely direct export promotion measures, devaluation, and the relaxation of quantitative restrictions; the final aspect of tariff reductions still needed to be addressed. Further progression of South Africa's trade liberalisation policies, between 1992 and 1995, had seen the focus shift to import liberalisation through tariff reductions. South Africa was obliged to reduce its tariffs on manufactured goods by 33 percent between 1995 and 1999, following its participation in the Uruguay Round.

Furthermore, it needed to provide greater market access for foreign-produced agricultural commodities; and was also required to significantly reduce export subsidies on agricultural products, following the instruction to lessen the level of domestic support for agriculture (Bell, 1997:71, 74; Matona, 1995).

### **3.2.2.3. Post Apartheid Policy**

Global economic growth rates were relatively low during the period following South Africa's transition to democracy post 1994 elections. Entry into external markets was not easy at the time as many of the major industrialised countries had adopted protectionist measures. Compounding this, South Africa and other developing countries were put under increasing pressure by the General Agreement on Tariffs and Trade (GATT)/WTO to open up their domestic markets to imports. The country entered the period of transition with many decades of foreign direct investment (FDI) and technology inflows; a fairly large and diversified manufacturing sector; a moderately-sized physical, banking and human resource base; and was globally competitive through protective measures in mining equipment, metallurgy, chemicals and paper (Michie and Padayachee, 1997:9-10). It faced many obstacles in spite of its accomplishments, such as: a small amount of manufactured exports and modest productivity growth when compared to similar-sized East Asian NICs; large areas of industry that were characterised by low levels of technology and a lack of competitiveness; and weaknesses in advanced engineering activities as well as in mature labour-intensive products like garments and footwear (Lall, 1993:50).

Saul (2004) notes that the ANC has adopted capitalism and democratic principles to a large extent since its rise to power in 1994, in spite of the socialist rhetoric of its leaders in response to tensions within the party's governing alliance; South Africa has been described as embarking on a 'national democratic revolution' following political liberation. The ANC still persists with this course regardless of the fact that the socialist members of the alliance, namely the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU), continue to fervently push their agenda for a more equitable distribution of income among the country's citizens (Saul, 2004). It goes without saying that South Africa's broad policies of economic liberalisation have helped the country integrate into the world-economy; its

leaders have not lost sight of the importance of implementing development initiatives however.

The Department of Trade and Industry (DTI) refers to the Industrial Policy Action Plan (IPAP) as a good example of this focus and represents one of several industrial policy initiatives that have been undertaken since 1994. The purpose of the plan is to unlock the country's industrial development in a sustainable manner through the identification of strategic industrial interventions. One of the primary sectoral actions involves the fast-tracking of the South African economy's four lead sectors, namely automotives and components; capital/transport equipment and metals; forestry, pulp and paper, and furniture; and chemicals, plastic fabrication and pharmaceuticals. The implementation of the second 2010/11 – 2012/13 IPAP, or IPAP II, was approved by Cabinet in February 2010 and focuses on escalating the industrial policy interventions in order to structure the economy in a manner that provides more work and a sustainable livelihood; it also supports the government's aim to create approximately 2, 5 million jobs by 2020 (DTI, 2007; DTI, 2011a).

The following section will look at how South Africa has progressed in the last two decades. This will be investigated by conducting a detailed analysis of its current position in the modern world-system in order to ascertain whether it still possesses the characteristics of an advanced semi-peripheral country. A combination of the indicators that were employed by the MWS theorists discussed in the second chapter will be utilised in order to affirm whether South Africa is still rooted in the semi-periphery. The reason for this is that a more thorough understanding of the country's current position in the modern world-system is gained through the usage of a broader spectrum of indicators. These include: assessing South Africa's gross national income per capita, the composition and growth of its GDP, the nature of its imports and exports, the level of technology and infrastructure, and its hegemonic attributes. Political and sociocultural elements will also be uncovered, looking beyond purely economic characteristics, in order to assess whether South Africa displays these semi-peripheral attributes on other levels too. Statistics from Brazil, India, Mexico and Turkey were used when comparing South Africa to individual semi-peripheral states.



### 3.3. South Africa's Current Position in the Modern World-System

#### 3.3.1. GNI (GNP) Per Capita

The World Bank makes use of GNI per capita (formerly known as GNP per capita) to classify national economies. This refers to the World Bank's method of measuring a country's gross national income, which is then converted to U.S. dollars using the World Bank Atlas method, and is thereafter divided by the midyear population. According to the Bank, "GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad" (World Bank, 2011c, 2011d). Using 2010 figures (Table 1), national economies are divided into the following four groups:

**Table 1: World Bank Country Classification by Income Group**

<b>World Bank Country Classification by Income Group</b>	
<b>Group Name</b>	<b>2010 US\$ Indicators</b>
<b>Low Income</b>	\$1,005 or less
<b>Lower Middle Income</b>	\$1,006 - \$3,975
<b>Upper Middle Income</b>	\$3,976 - \$12,275
<b>High Income</b>	\$12,276 or more

Source: World Bank, 2011c.

South Africa forms part of the upper middle income group of countries according to the World Bank's 2010 list of national economies; this is reflected in the country's 2010 GNI per capita figure of \$6,090. South Africa is joined in this group by countries such as Argentina, Brazil, Malaysia, Mexico, Russia, and Turkey (World Bank, 2011c). Looking at Table 2, one should take note of the progression that the country has made in its national income figures since its first democratically held elections in 1994. The dip experienced from 1997 to 2002 was followed by several years of steady growth, and has remained stable even in the wake of the global financial crisis that began in 2007.

**Table 2: South Africa's GNI per capita, Atlas method (current US\$)**

South Africa's GNI per capita							
1994	1995	1996	1997	1998	1999	2000	2001
3,610	3,740	3,760	3,680	3,280	3,150	3,050	2,830
2002	2003	2004	2005	2006	2007	2008	2009
2,620	2,860	3,620	4,850	5,480	5,770	5,860	5,730
2010							
6,090							

Source: Statistics provided by the World Bank, 2011c

### 3.3.2. Composition of GDP by Sector

During a country's development it is important to note the relationship between the primary, secondary and tertiary sectors. The primary sector - agriculture and mining - dominates the national economy during the initial phase of growth. As development continues the secondary sector - manufacturing, water and electricity - begins to take over. The next phase of development involves the strengthening of the tertiary sector, namely in financial and government services. Table 3 indicates that South Africa's primary sector contribution to GDP dropped from 40, 2 percent in 1920 to 6 percent in 1981, and then to 3 percent in 2009. The secondary sector's share expanded from 10 percent in 1920 to 46 percent in 1981; it then dropped to 31 percent in 2009. The tertiary sector also reflects the country's development as it increased from 49, 8 percent to 66 percent. These statistics confirm that South Africa has strengthened its semi-peripheral status. (Fourie and Mohr, 2004:85; World Bank, 2011b).

**Table 3: Composition of GDP by Sector Comparison**

Comparative Table: Composition of GDP by Sector			
	1920	1981	2009
<b>Agriculture % of GDP</b>	40, 2	6	3
<b>Industry % of GDP</b>	10	46	31
<b>Services % of GDP</b>	49, 8	48	66

Source: World Bank, 2011b and Fourie and Mohr, 2004

### 3.3.3. GDP Growth (Annual %)

The annual percentage of GDP growth is another good indicator of a country's performance in the international division of labour. South Africa had experienced three years of negative GDP growth when McGowan wrote his article in 1993. Furthermore, the country's average annual GDP growth rate between 1982 and 1992 was a mere 0,64 percent (World Bank, 2011b). Political instability and social unrest during the period added to McGowan's negative outlook regarding the country's further development in the semi-periphery of the world-system. Table 4 tracks South Africa's annual GDP growth rate from 1994; the substantial rise indicates that the country is in a much stronger economic position than it was at the time of McGowan's writing. In fact, South Africa enjoyed an average annual growth rate of more than 5 percent between 2004 and 2007. Figures for 2008, 2009 and 2010 were less impressive with growth rates of 3.6, -1.7, and 2.8 percent respectively; the Bank attributes the negative growth rate for 2009 to the global economic downturn (McGowan, 1993; World Bank, 2011b).

**Table 4: South Africa's GDP Growth (Annual %)**

South Africa's GDP Growth (Annual %)							
1994	1995	1996	1997	1998	1999	2000	2001
3.2	3.1	4.3	2.6	0.5	2.4	4.2	2.7
2002	2003	2004	2005	2006	2007	2008	2009
3.7	2.9	4.6	5.3	5.6	5.5	3.7	-1.7
2010							
2.8							

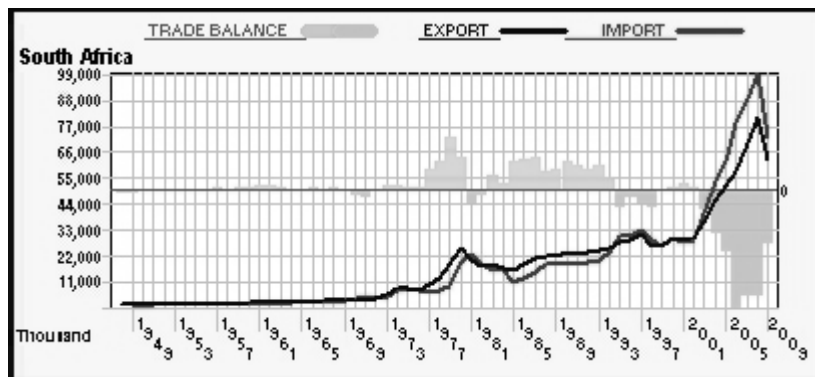
Source: Statistics provided by the World Bank, 2011b.

### 3.3.4. Nature of Imports and Exports

Figures related to imports and exports serve as a good indicator of how actively a country is participating in the world-economy. In 2009 South Africa had a 0,49 percentage share in world total merchandise exports and had a 0,58 percentage share in its imports. It also accounted for 0,34 percent of the world's total exports of

commercial services and for 0, 45 percent of its imports (WTO, 2011b). Furthermore, in 2010 the country's total exports and imports of goods and services accounted for 26 percent and 27 percent of its GDP respectively (World Bank, 2011b). These figures indicate just how important global trade is for South Africa; the DTI illustrates its significance in Figure 5 by plotting the country's increase in both imports and exports post World War II.

**Figure 5: South Africa's Trade Growth: 1948 – 2009 (R'000)**



Source: Department of Trade and Industry, 2011b.

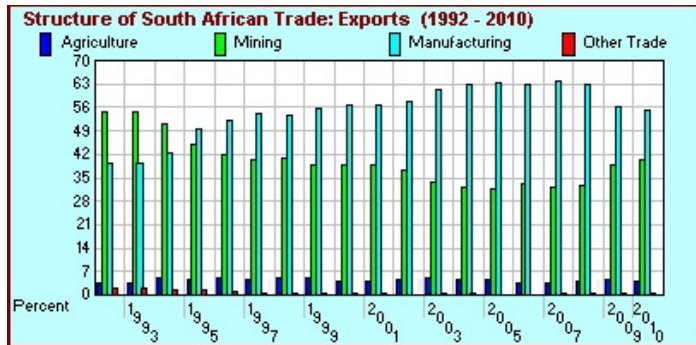
The nature of a country's imports and exports is also important as a determinant of its location within the international division of labour. By looking at the broad composition of South Africa's exports during the 1990s, ranging from primary products to high-technology exports, Andreasson pointed out that the diversified nature of the country's economy is reflective of semi-peripheral countries. The country's major imports contained a similar mix of products which included raw materials, capital goods and semi-manufactured goods (Andreasson, 2001:193-196). Illustrating South Africa's six chief imports and exports for 2010, Table 5 confirms that this mix of products still exists, and thus so do the core and peripheral activities that is a feature of semi-peripheral countries like South Africa.

**Table 5: Top Six South African Imports and Exports, 2010**

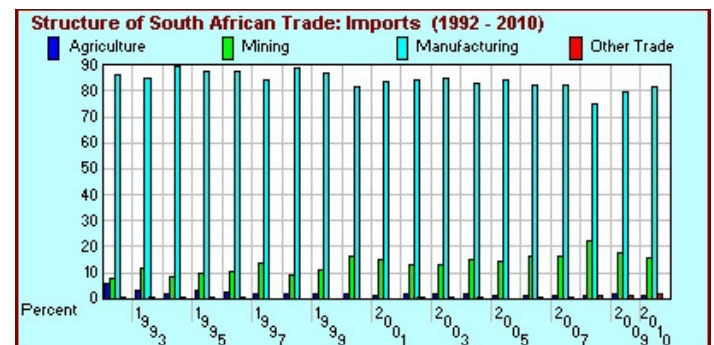
Products Imported by South Africa, 2010 (US\$'000)			Products Imported by South Africa, 2010 (US\$'000)		
Industry	Import value	Share of Total Imports %	Industry	Exports in Value	Share of Total Exports %
<b>All Products</b>	80,139,282		<b>All Products</b>	71,484,309	
<b>Mineral Fuels, Oils</b>	15,722,549	19.62	<b>Pearls, Precious Stones, Metals</b>	11,801,431	16.51
<b>Machinery</b>	11,847,504	14.78	<b>Ores, Slag and Ash</b>	9,784,733	13.69
<b>Electrical, Electronic Equipment</b>	8,568,805	10.69	<b>Iron and Steel</b>	7,929,536	11.09
<b>Vehicles</b>	7,036,010	8.78	<b>Mineral Fuels, Oils</b>	7,223,353	10.1
<b>Commodities</b>	5,241,608	6.54	<b>Vehicles</b>	6,437,205	9.05
<b>Optical, Photo, Medical Apparatus</b>	2,088,371	2.61	<b>Machinery</b>	5,126,963	7.18

Source: International Trade Centre, 2011.

In addition, an analysis of the percentage share of South Africa's imports and exports in the agricultural, mining and manufacturing sectors provides a further indication of the country's role in the global division of labour. The DTI (2011c) assessed the structure of South African trade from 1992 to 2010; Figure 6 illustrates the export pattern of a typical semi-peripheral state that exports a fairly substantial amount of both mining and manufactured products. The figure also indicates how South Africa has become stronger in the semi-periphery since 1992 with manufacturing gradually forming a greater share of its exports, as the country's reliance on mining exports slowly subsides. The sector composition of South Africa's imports (Figure 7) also reflects that of a semi-peripheral state seeing that it continues to rely heavily on manufacturing imports.

**Figure 6: Sector composition of Exports**

Source: Department of Trade and Industry, 2011c

**Figure 7: Sector composition of Imports**

### 3.3.5. Infrastructure and Technology

Infrastructure is an important element when assessing a state's level of development and its location in the modern world-system. South Africa possesses six cities with a population of over 1 million, with more than sixty percent of the country's population living in urban areas; five major ports; 147 airports with paved runways; world-class stadia, having hosted the soccer, rugby and cricket world cups; the 14<sup>th</sup> longest railway network and the 18<sup>th</sup> longest road network in the world; the most modern telephone system in Africa; and approximately the same amount of cellular telephones as the country's total population (World Bank, 2011a).

The level of science and technology also points to a state's position in the modern world-system. Expenditure on research and development (R&D) as a percentage of GDP is a good indicator of this; a comparison of this expenditure was made between prominent semi-peripheral states using World Bank 2011 figures, based on 2007 percentages. At 0, 93 percent South Africa's research and development expenditure forms a relatively high percentage of its GDP, when compared to other semi-peripheral states such as India – 0, 80 percent, Mexico – 0, 37 percent, and Turkey with 0, 72 percent; Brazil's expenditure is slightly higher at 1, 1 percent of its GDP. High technology exports as a percentage of manufactured exports can also serve as an indicator and are essentially products with high R&D intensity. Based on 2009 World Bank figures, South Africa's high technology exports comprise 6 percent of its manufactured exports. This is an average figure when compared to the countries used in the previous comparison; with Brazil (14 percent) and Mexico's (22 percent) high

technology exports comprising a greater percentage of GDP than India and Turkey's 9 percent and 2 percent respectively (World Bank, 2011a).

### **3.3.6. Sociocultural Indicators**

The previous chapter explained the importance of using university rankings as a cultural indicator for locating a state in the hierarchy of core, semi-peripheral and peripheral countries. According to the 2011 Webometrics Ranking of World Universities, five South African universities are ranked in the top 700 global universities. These are the University of Cape Town, the University of Pretoria, Stellenbosch University, the University of Witwatersrand, and Rhodes University. Mexico has four universities in the top 700, Brazil fifteen, India three, and Turkey has four. South Africa seems to be on par academically with other semi-peripheral states but its dominance on the African continent is clearly evident; this is illustrated by the fact that eight out of the top ten universities on the continent are located in South Africa (Webometrics, 2011).

South Africa has the highest number of people living with HIV/AIDS in the world. Despite this, the country's total health expenditure as a percentage of GDP is 8, 5 percent; this is on par with Brazil (9 percent) and is higher than the other states – India (4, 2 percent), Mexico (6, 5 percent) and Turkey (6, 7 percent) – used in the semi-peripheral comparison (World Bank, 2011a). South Africa's literacy rate for the population aged 15 and above is 89 percent; this again is similar to the majority of semi-peripheral states used in the comparison – Turkey (91 percent), Mexico (93 percent), and Brazil (90 percent) – and significantly ahead of India's 63 percent (World Bank, 2011a).

### **3.3.7. South Africa as a Regional Hegemon**

There have been three global hegemonies in the modern world-system, namely the Netherlands in the 17<sup>th</sup> century, the United Kingdom in the 18<sup>th</sup> century, and the United States in the 20<sup>th</sup> century. A hegemon may also exist in a given world region, such as Southern Africa, or Africa (Ahwireng-Obeng and McGowan, 1998a:13). Shannon (1989:29) explains that the semi-periphery exports peripheral-like goods to the core and core-like goods to the periphery, on the one hand; and receives goods produced with labour-intensive, low technology methods from the periphery and

capital-intensive, high technology methods from the core, on the other. In order to apply his explanation of the semi-periphery's trading relationship with the core and the periphery, South Africa's trading relationship will be compared with the European Union (EU) and the Southern African Development Community (SADC) respectively. According to the Department of Trade and Industry, SADC is the second highest recipient of South Africa's manufacturing exports. The region served as the market for 17, 3 percent of this total in 2011. Despite this, only 1, 2 percent of South Africa's imports of manufactures in 2010 came from SADC countries, placing the region in eleventh place. As expected a much higher proportion was received from the EU, with 38, 4 percent of the country's manufacturing imports stemming from the region (DTI, 2011c).

The trading relationship is verified again when looking at agricultural trade statistics. 2011 figures confirm that SADC only received 5, 3 percent of South Africa's total agricultural exports, placing the region in sixth place; the EU received 38 percent of these total exports. As anticipated, SADC is the fourth highest exporter of agricultural products to South Africa, accounting for 11, 7 percent of the country's total agricultural imports. The mining trade statistics mirror the agricultural trade statistics. In 2011 1, 2 percent of South Africa's total mining exports were received by SADC countries, placing the region in ninth place; whereas 14, 5 percent of South Africa's importation of mining products came from SADC, making the region the third highest exporter of mining products to the country (DTI, 2011c).

South Africa's regional hegemonic attributes and dominance in the SADC region is demonstrated clearly when comparing it to the country's total regional trade statistics (Table 6). Figures for 2010 indicate that SADC exports accounted for 11, 7 percent of South Africa's total exports, making the region the country's fourth highest export recipient. SADC imports were ranked eighth, however, accounting for only 4 percent of South Africa's total imports. The trade surplus that South Africa enjoys is what you would expect from a regional hegemon. When compared to all the regions in the world, the SADC region gave South Africa its most favourable trade balance for 2010 (DTI, 2011c).



**Table 6: South Africa's Trade with the SADC Region**

2010 South African Trade by Regions (R'000)								
	SADC Exports	Proportion of Total	Rank	SADC Imports	Proportion of Total	Rank	Trade Balance	Rank
<b>SADC</b>	60,784,421	11.70%	4	23,719,197	4%	8	37,065,224	1

Source: Department of Trade and Industry, 2011.

### 3.3.8. Foreign Policy, Military and Democratic Characteristics

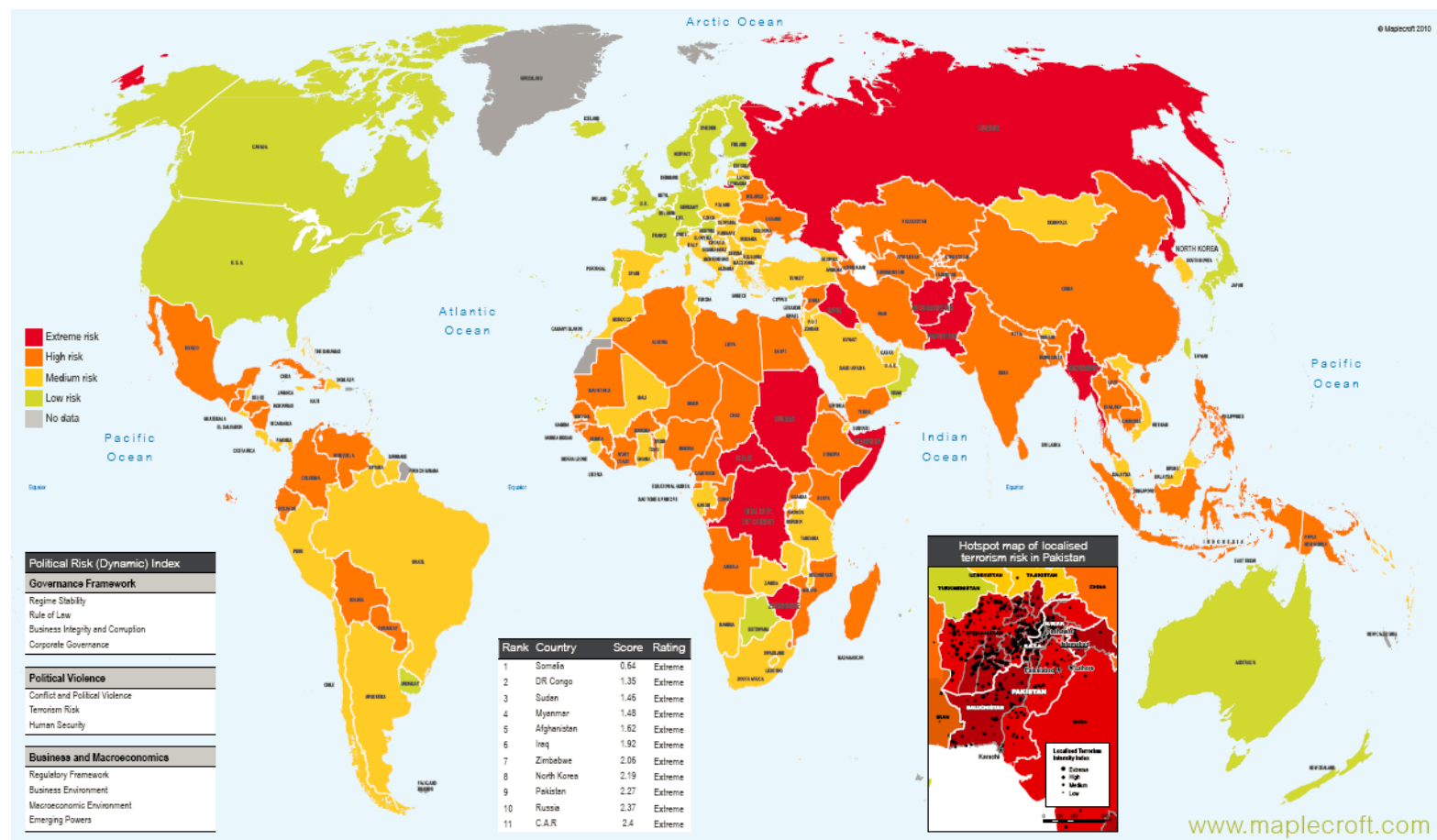
Semi-peripheral states provide stability to the modern world-system and as a result conduct foreign policy in a manner that supports the global order. These states do not threaten the global status quo, even in instances when they disagree with the hegemon of the period and other core states. They conduct their foreign policy in an intervening manner in situations of conflict that threaten the world-system (Shannon, 1989). Although referring to middle power behaviour, Cooper (Cooper, 1997:9) notes the coalition-building and cooperation-building role of this group of countries. The characteristics of middle power states differ from semi-peripheral states, but an analysis of their foreign policy traits is useful as they essentially comprise the same, or similar, group of states. According to Jordaan (2003:169), the relative inability of these states to act unilaterally to enforce global structural change means that they need to resort to multilateral cooperation, through mediums such as international institutions. Ruggie (1993:7-8) asserts that multilateralism is not limited to multilateral organisations, which is a relatively recent occurrence, and refers to international security cooperation as a good example of multilateralism. What the term should refer to is the coordination of relations among three or more states in accordance with certain principles.

According to van der Westhuizen (1998:435-437), South Africa has been playing an increasingly active role in global affairs. Its diplomatic activities have extended beyond southern Africa, such as Nelson Mandela's offer to mediate between the USA and Iraq in 1997, as well as his attempt to broker a settlement between Tripoli and London over the Lockerbie incident during the same year. Other examples of South Africa's peacemaking diplomatic activities include its involvement in the conflict in Northern Ireland; the peace process in Israel and Palestine; the conflict in Sudan; the

East Timor question; and the refugee crisis in the Great Lakes. South Africa has furthered its presence on the international stage of late; this is displayed in the country's increasing participation in the Annual Meetings of the World Bank, the International Monetary Fund (IMF), the G-20, and the G-24. President Zuma has made a point of collaborating with other emerging economies through alliances such as IBSA and BRICS. The successful hosting of the FIFA 2010 World Cup has also gone a long way toward establishing South Africa on the international scene. The country will also be hosting the United Nations Framework Convention on Climate Change in 2011 (World Bank, 2011e).

Military expenditure as a percentage of GDP – this includes all current and capital expenditures on the armed forces, defence ministries, and paramilitary forces – is also a good indicator of a state's political role in the modern world-system. South Africa allocates 1, 4 percent of its GDP to military expenditure; this percentage level is similar to Brazil's (1, 6 percent), is lower than India (2, 7 percent) and Turkey's (2, 8 percent) and is higher than Mexico's (0, 5 percent) (World Bank, 2011a).

Political risk assessments can also be used for locating a state in the modern world-system. Andreasson (2001) argues that the more advantageous a state's position is in the world-system the better equipped it is to safeguard democracy against erosion and reversal; peripheral states are thus less likely to possess the resources necessary for democratic consolidation. Maplecroft's Political Risk Index includes risks such as regime stability, the rule of law, corruption, conflict and terrorism, expropriation, the business environment and the macroeconomic context. South Africa's medium risk rating seen in Figure 8 could perhaps serve as an additional political indicator of its semi-peripheral status. It can be argued that states that are not democratic can also experience a relatively low level of political risk; the predominant trend however is that the majority of democratic states are characterised by low levels of political risk and that many of these states are advanced enough in the world-system to protect their democracies.

**Figure 8: Political Risk Map 2011**

Source: Maplecroft, 2011

### 3.4. Conclusion

This chapter has reaffirmed previous studies that claim that South Africa is currently an advanced semi-peripheral country. This assessment is based on several economic, political and sociocultural indicators that resemble aggregated characteristics of this group of countries. South Africa was incorporated into the modern world-system around the 1840s through the production of wool and sugar, which was followed by the boom in diamond and gold mining activity a couple of decades later. Its peripheral status came to an end around the 1920s as the country adopted an import substitution strategy. The last ninety years or so has seen South Africa not only solidify its semi-peripheral status but develop into an advanced entity within this phase. The fourth chapter will look at the developmental strategies adopted by older developed countries as well as those adopted by recent ascents in the MWS. The chapter will shed some light on whether the developmental paths suggested by MWS theorists are fixed or whether elements of the strategies can be adopted simultaneously. The impact that WTO rules have had on South Africa's policy space will also be assessed.

## **Chapter Four**

### **Recent Ascents in the Modern World-System**

#### **Introduction**

The fourth chapter will assess whether the nature of the world-system has changed since the inception of the WTO. It is anticipated that these new dynamics have resulted in a shift in strategy for countries wishing to ascend in the modern world-system. The chapter will firstly evaluate the development strategies of the established core powers. This will be followed by a comparative analysis of recent ascents (post-World War II) in the modern world-system that have implemented different development strategies. The purpose of the comparison between China and Russia (self-reliance), Mexico and Brazil (import substitution), and South Korea and Taiwan (export-led growth), is to assess whether their strategies are completely distinct or whether there is a degree of compatibility. The chapter concludes with an analysis of how contemporary strategies for development have been moulded by restrictive WTO policies, with the intention of applying these findings to South Africa's future strategy.

#### **Evolution of the International Trading System**

The majority of developing countries, according to Gilpin (2001), adopted interventionist and protectionist policies after World War II and had minimal involvement in the General Agreement on Tariffs and Trade. Despite this, global trade expanded considerably during the post-war period as trade barriers were reduced substantially after several rounds of trade negotiations. Average tariff levels of industrialised countries were greatly lowered from around 40 percent to merely 6 percent during the last half of the twentieth century. National economies became more open to imports from the late 1970s due to the gradual adoption of neoliberal economic policies privatisation and deregulation. Despite further trade expansion through technological advances, reduced transportation costs, and greater business participation in international markets; the majority of trade is conducted among the three advanced industrialised economies, namely Western Europe, the United States, and Japan, as well as a small number of emerging markets in vast areas such as in East Asia and Latin America. The less developed world is excluded from this arrangement and at best fulfils a peripheral role in the modern world-system that is

characterised by the exportation of food and raw materials; this makes up a minimal proportion of total global exports. Sub-Saharan Africa can attest to this as it is estimated that the region accounted for only approximately 1 percent of total world trade in the 1990s (Gilpin, 2001:6; Sally, 2000:403).

The world-economy changed considerably after the conclusion of the Cold War considering that prior to this event it had functioned within the framework of the alliance structures during the latter half of the twentieth century. Gilpin (2001) explains that in essence, alliance unity and security interests served as the political glue that overcame contending national economic issues and kept the world-economy together. Economic cooperation among the capitalist powers diminished at the end of the Cold War, whilst the avid participation in the market system by the formerly communist and Third World countries resulted in a substantially more market-oriented world. This was illustrated by the upsurge in participation in the WTO by the less developed countries (LDCs). The dramatic expansion of world trade led to far greater international competition; the industrialising economies in East Asia added to this trade competition during the 1980s and 1990s as they shifted from an import substitution growth strategy to one which focussed on export-led growth (Gilpin, 2001:5). Sally observed this trade policy reform in her analysis that thirty-three developing countries, which constituted approximately half of all developing countries with protectionist policies, shifted from fairly closed to fairly open trading regimes between 1985 and 1995. Added to this, the number of those countries with liberal regimes of cross-border capital movements jumped from nine to thirty during roughly the same period (Sally, 2000:403).

#### **4.2.1. From GATT to the WTO**

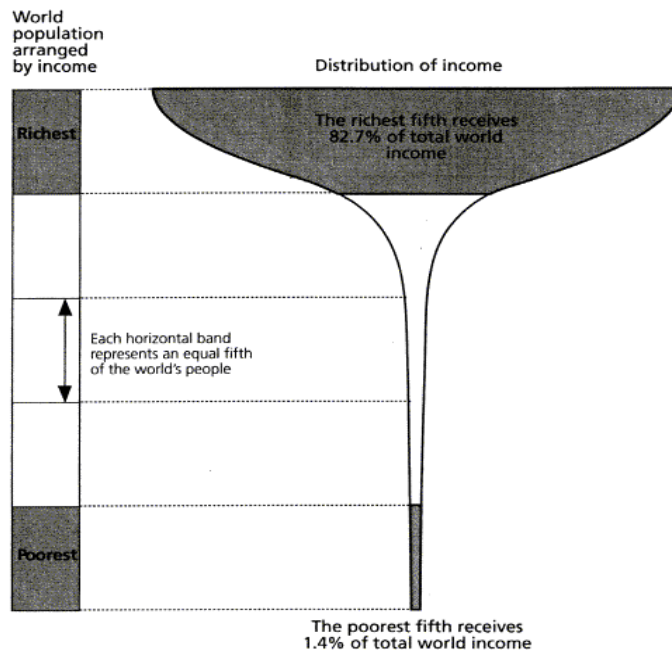
The General Agreement on Tariffs and Trade was established in 1947 with the objective to free global trade. Its most important aspect is the Most Favoured Nation (MFN) principle, which states that any concession that one state receives from another should be provided to all other states. The evolution from GATT to the World Trade Organisation came about after a series of negotiations, referred to as 'rounds'. The WTO replaced GATT in 1995 after the latter's final round, known as the Uruguay Round, was wrapped up in 1994 following its commencement eight years earlier. McGowan and Nel (2002) note that where GATT was created by the United States

and its allies, promoting liberal trade values and objectives corresponding with U.S. political and military strategic objectives, the WTO tries to manage the entire international trade system by means of a multinational effort. The difference between the two is that GATT was just an agreement, whereas the WTO is an actual treaty. Thus, the WTO packs a lot more punch as its ‘dispute–settlement mechanism’ clearly illustrates, giving it the authority to impose trade sanctions on member states that are not loyal to trade agreements (McGowan and Nel, 2002:81,89; WTO, 2011a).

The WTO is headquartered in Geneva, Switzerland, consists of 153 members and accounts for more than 90 percent of world trade. At its heart are the WTO agreements, which have been signed and negotiated by most of the world’s trading nations. These agreements create the legal ground rules for global commerce and are fundamentally contracts that bind governments to keep their trade policies within agreed limits. The WTO’s main functions include: administering WTO trade agreements; handling trade disputes; creating a forum for trade negotiations; providing technical assistance and training for developing countries; monitoring national trade policies; and cooperating with other international organisations. When it comes to decision-making its members undertake the often arduous task of reaching consensus. The WTO’s highest-level decision-making body is the General Council, which is composed of ambassadors and delegation heads that meet several times a year in Geneva and also partake in the Ministerial Conference that commences at least once every two years. The Ministerial Conference brings together all members of the WTO, all of which are countries or customs unions, and carries out decisions on all matters under any of the multilateral trade agreements (WTO, 2011a).

#### **4.2.2. Impact on Development**

In theory, the WTO holds development as a core principle in its negotiations; in reality however the general sentiment is that these negotiations do not meet the demands of developing countries. The unbalanced nature of the contemporary global trading system tilts in favour of the industrialised nations and further perpetuates their economic and political dominance. This imbalance translates into a significantly skewed global distribution of income as expressed by the UNDP in Figure 9 below.

**Figure 9: The U.N. Development Program's famous "champagne glass" figure**

Source: Athanasiou, 2000

According to Rodrik (2001), the central objective of the WTO for its founding fathers was to raise the standards of living and enhance sustainable development through trade expansion. The G7/8 capitals and a number of leading multinational agencies have also added their weight in support of greater trade expansion. For them, greater integration into the global economy is seen as an essential ingredient for economic growth and development. The WTO has insisted that market liberalisation and free trade is the only way in which to stimulate this growth (Rodrik, 2001:1-5). The Organisation aims to make the multilateral trading system more inclusive with regards to its membership and desires a greater command over trade-related issues. In order to gain popular support for its mandate it assures that doing so will benefit all of its member countries. A different picture is painted in reality as major differences between developed, developing, and least-developed member countries persist; this is none more so than the unequal distribution of proceeds brought about by multilateral trade negotiations (Oyejide, 2004:68). Rodrik (2001:44) argues that the focus should not lie on evaluating the trade regime from the perspective of whether it maximises the flow of trade, but should rather be on ascertaining whether the trading arrangements maximise the possibilities of development.



In recent years, we have been witnessing vigorous civil society critique of free markets and unbridled capitalism which has become increasingly evident in today's multilateral trading system. Ismail (2005) says that the call to free trade, deregulated financial markets, and the privatisation of state enterprises by the G7/8 capitals and leading multinational companies, do not take into account how these policies will impact the poor in developing countries; but is merely concerned with the commercial and capitalistic interests of these actors. He added that the increasing proliferation of free trade agreements initiated by the major developed countries, as they seek to gain advantage in global markets, has raised concerns that the diversion of trade towards developed country markets would increase the marginalisation of those excluded from these arrangements (Ismail, 2005:14-16).

Low-income countries constitute approximately 70 percent of the WTO. These countries, with a *per capita* income of US\$1,000 or less, argue that the multilateral trading system does not take their development concerns into account despite the Organisation aspiring to globalism. These countries criticise the multilateral trading system for: being more concerned with the interests of high-income countries; preventing pro-poor growth, by leaving trade barriers intact; making the maintenance of trade-related institutions – created by WTO Agreements – too costly for low-income countries to have any significant impact; and negotiating multilateral trade-related rules that are not conducive to the environment and practices found in low-income countries (Oyejide, 2004:68-69).

The US and the UK, according to Wade (2003:622), are leading developed country governments in the opening up of the global market whilst propagating technology-protecting regulations. These measures are being enforced through international treaties, multilateral economic organisations and bilateral agreements. The international agreements legitimise a degree of intrusion into the economies and politics of developing countries. Interestingly, globalisation has not diminished the authority of states to regulate, but has instead obliged developing country governments to impose greater regulation both on themselves and on their national firms (2003:622). This has not been reciprocated, however, as the US and the EU have limited developing country access into their own markets by closing off significant portions of their economies (2003:622).



Wade (2003) goes on to say that this represents the shrinkage of both development and ‘self-determination’ space, despite the rhetorical commitment to universal liberalisation and privatisation, as the developing nations are subject to the market opening agenda purported by developed nations. He adds that due to the rules that are being written into multilateral and bilateral agreements, developing countries are actively being prevented from adopting the kinds of industrial and technology policies that were adopted by the older developed countries when they were developing, and by the newly developed countries of East Asia. The development policy options of these countries have been limited by three major agreements that stemmed out of the Uruguay Round; they are related to trade in services (GATS), investment measures (TRIMS), and intellectual property rights (TRIPS). These agreements have restricted the possibility for developing countries to mirror the industrial policy instruments that were the driving force behind the successful development of the East Asian region. TRIMS and GATS have disempowered developing country governments by preventing them from controlling the decisions of companies operating in their territory, whilst TRIPS compels these governments to enforce the meticulous property rights of international companies. The developing countries have not benefited from these agreements, as promised by the G7/8 states; they have in fact strengthened the political, economic and military dominance of the core states in the world-economy Wade (2003:621-622). The manner in which the agreements reflect the actual reduction of development space for developing nations will be looked at in more detail in a latter section.

#### **4.2.3. How the Core Powers really Developed: Argument against the Neoliberal Fallacy**

##### **4.2.3.1. A Case of ‘Kicking away the Ladder’**

The neoliberal development agenda, otherwise referred to as the Washington Consensus, aims to craft corruption-free public sectors, rent-free markets and an autonomous civil society based on democratic principles (Wade, 2004:184). Chang (2003) points out that even though this agenda is prescribed for countries hoping to realise their developmental goals, it does not mirror the history of development that was undertaken by the advanced European and North American countries or that of the successful developers during the post-World War II period. On the contrary he

argues that the history of development always involved some form of infant industry nurturing.

Developing countries have been placed under significant pressure from the international development policy establishment, which is controlled by the developed world, to further their economic development through the implementation of a set of 'good policies' and 'good institutions'. 'Good policies', which have been set by the Washington Consensus, include the liberalisation of international trade and investment, restrictive macroeconomic policy, and privatisation and deregulation. 'Good institutions', which essentially belong to developed countries, include democracy; transparent and market-oriented corporate governance and financial institutions; the protection of private property rights; a high-quality bureaucracy; and an independent judiciary. In his book, aptly named 'Kicking away the Ladder', Chang questions the applicability of these 'good' policies and institutions and whether they were in fact adopted by the developed countries during their own development process. He investigated how the rich countries actually gained their wealth and whether these countries were actually attempting to hide the 'secrets of their success'. In short, he believes that developed countries did not make use of the policies and institutions that they are currently recommending to developing countries. He goes on to say that the majority of developed countries used 'bad' trade and industrial policies, such as infant industry protection and export subsidies, practices that are prohibited by the WTO (Chang, 2003:2-3).

Chang's argument is by no means a new one. The infant industry argument had been advanced by List in the nineteenth century when he stated that developing countries could not expand industrially without state intervention, particularly in the area of tariff protection. He identified this trend within his analysis on the development of Britain and the USA, the greatest advocates of today's liberal economic policy. The latter remained closed for about a century, despite pressure from Britain to participate in the open market. The majority of developed countries adopted this approach to development, although Britain was the first country to perfect the art of infant industry promotion. List went on to say that free trade was only favourable among countries at similar, not different, levels of industrial development. This is why he

argues that British economists and politicians advocated free trade during that period for nationalistic reasons (List, 1885; Chang, 2003:3-4).

#### **4.2.3.2. Country Mobility as Evidence**

Upon closer inspection, there appears to be supporting analytical evidence that the neoliberal development agenda seems to maintain the status quo as country movement between the income zones is relatively static. Country mobility is a good indicator of the degree to which development is currently achieved within the world-economy; Wade emphasised that there is a relatively low rate of mobility up and down the hierarchy. Babones (2002) conducted a study where he compared the real Gross National Product (GNP) per capita of 100 countries between 1960 and 1999. In noting the three income zones – core, semi-periphery and periphery – he discovered that 72 of the countries stayed in the same income zone, whilst the outstanding 28 countries moved at least once from one zone to another. Interestingly no country ascended, or descended, more than one zone; and there is relative parity in the cases of upwards and downwards movement. Wade argues that country immobility – the fact that more than 80 percent of countries remained in the same zone over the 40 year period – cannot be put down to ‘bad’ or ‘good’ policies, but should rather be attributed to other powerful forces such as the rules that govern international trade (Wade, 2004:167-169).

University rankings serve as a good cultural indicator for locating a state in the hierarchy of core, semi-peripheral and peripheral countries; these rankings also point to the lack of mobility experienced by states in this hierarchy considering that they reflect the long-established dominance of the current core group of countries. The 2010-2011 Times Higher Education World University Rankings illustrate this occurrence as the top 100 universities are situated in core countries, barring China. The table below (Table 7) demonstrates this dominance enjoyed by the core; it must be noted that these rankings tend to fluctuate annually, but what is important for this study is that the top 100 rankings change between universities that are situated in the core group of states and not between those that located in the semi-periphery or the periphery.

**Table 7: Top 100 World University Rankings 2010-2011 by Country**

<b>Country</b>	<b>Number of Universities in the Top 100</b>
<b>United States</b>	53
<b>United Kingdom</b>	14
<b>Australia</b>	5
<b>China (including Hong Kong)</b>	5
<b>Switzerland</b>	4
<b>Canada</b>	4
<b>France</b>	3
<b>Germany</b>	3
<b>Japan</b>	2
<b>Republic of Korea</b>	2
<b>Sweden</b>	2
<b>Ireland</b>	2
<b>Singapore</b>	1

Source: 2010-2011 Times Higher Education World University Rankings

The composition of GDP by sector is another important indicator that can be used for locating a state in this hierarchy and can also illustrate its relatively static nature. Table 8 looks at the percentage contribution that agriculture, industry and services make towards the GDP of a selection of core, semi-peripheral and peripheral states. A comparison has been made between the 1981 and 2009 World Bank figures of these states in order to assess whether there was a significant change in the composition of their GDPs; the greater the change in these figures indicates that the selected states are most likely playing a different role in the global division of labour and hence also indicates greater mobility within the hierarchy.

**Table 8: Composition of GDP by Sector Comparison**

Comparative Table		
Composition of GDP by Sector		
	1981	2009
<b>Industry</b>		
<b>Core States</b>		
United States	3	1
United Kingdom	2	1
Netherlands	4	6
<b>Semi-Peripheral States</b>		
South Africa	6	3
Brazil	10	6
India	34	18
<b>Peripheral States</b>		
Mongolia	17	20
Sudan	36	30
Honduras	22	13
<b>Industry % GDP</b>		
<b>Core States</b>		
United States	34	21
United Kingdom	40	21
Netherlands	33	24
<b>Semi-Peripheral States</b>		
South Africa	46	31
Brazil	44	25
<b>Peripheral States</b>		
Mongolia	25	33
Sudan	15	26
Honduras	23	27
<b>Services % GDP</b>		
<b>Core States</b>		
United States	63	78
United Kingdom	58	78
Netherlands	63	74
<b>Semi-Peripheral States</b>		
South Africa	48	66
Brazil	46	69
India	40	55
<b>Peripheral States</b>		
Mongolia	58	47
Sudan	49	44
Honduras	55	60

Source: World Bank, 2011a

The results of the comparative study suggest that the most significant change in the composition of GDP by sector during the time period took place within the semi-periphery; this is not surprising considering that these states develop at a faster rate than core and peripheral states. South Africa, Brazil and India's reliance on agriculture diminished significantly as their focus has moved toward industrial and service-based economies. Core reliance on agriculture remained minimal over the period and the group experienced a gradual increase in services, and less in industry, as their economies strengthened. Peripheral states generally remained static in all three sectors. The results of the analysis support the notion that the hierarchy of core,

semi-peripheral and peripheral states is characterised by a relatively low degree of mobility.

### **4.3. Recent Strategies for Ascent in the Modern World-System**

#### **4.3.1. 1947-1995**

Of the newly industrialising countries several have developed through self-reliance and import substitution. These include countries such as Russia, China, Mexico and Brazil. The East Asian NICs, such as Korea and Taiwan, adopted the industrialisation strategy based on export-led growth, despite the fact that during the 1950s Korea and Taiwan had actually based their industrialisation strategy on import substitution. The two growth trajectories, one closely tied to world markets and the other inward-looking, are significantly different (Haggard, 1990:9).

##### **4.3.1.1. China and Russia (Self-reliance)**

The development strategy of self-reliance was encapsulated by the Soviet model of central planning. A number of countries rejected the market in favour of this strategy during the post-war period. Key aspects of this approach included the use of state trading monopolies to control foreign trade; large state owned enterprises (SOEs); price, wage, interest and exchange rate control; intolerance of the private sector; and collectivised agriculture. Reintegration into the world-economy occurred decades later as the model was rejected in the late 1980s and early 1990s, and resulted in a shift from planned to market economies. The GNP growth rates of these countries were impressive between the 1950s and 1960s, but they began to taper off in the 1970s, reaching a point of chronic economic stagnation in the 1980s. There were positive accomplishments for employers of the self-reliance strategy, despite deficiencies such as significant sectoral distortions and a lack of incentives. These included: successfully achieving industrialisation, a reasonably equal income distribution, the creation of a welfare system, and adequate provision in fundamental areas such as healthcare, housing, education, and job creation (Harvie, 1999:1091-1092).

There was a general belief that the Soviet Union was separate from the world-system, but theorists such as Shannon (1989) and Chase-Dunn (1981) argued that its strategy can be compared to that of a typical semi-peripheral state endeavouring to achieve core status, whereby it would initially limit economic links to the core in order to

propagate its semi-peripheral status by avoiding involvement in the world-economy. This allowed for the creation of a protected national economy, which isolated its less efficient and growing industries from core competition. The Soviet Union's economic policies became more capitalist thereafter due to its increasing participation in the global division of labour. The competitive nation-state system pushed the Soviet Union even further in a capitalist direction because it needed to undergo rapid industrialisation in order to remain on par with the military capacity of core powers (Shannon, 1989:108-109; Chase-Dunn, 1981).

The remainder of the socialist states were peripheral with China being the largest. China was less developed than the Soviet Union and after the 1949 revolution attempted to industrialise completely outside of the world-system (Shannon, 1989:110). China created a strong state between 1949 and 1978, in the backdrop of the Cold War, and managed to build its wealth and infrastructure significantly during this period without incurring a large foreign debt. China continued its developmental focus post 1978 despite the conclusion of the Cold War and the socialist development model. The period was characterised by the emergence of younger and more innovative leaders, as well as the need for lower cost production sites by its neighbouring countries (Bunker and Ciccantell, 2004:567-568).

#### **4.3.1.2. Mexico and Brazil (Import Substitution)**

Mexico and Brazil's shift toward import substitution industrialisation came about as a result of the twin shocks of the depression and World War II during the 1930s and 1940s. The primary aim of the ISI strategy is to strengthen domestic industries to the point where they can displace imported manufacturing goods. Measures that were put in place included the endorsement of state-owned companies, high tariffs and the financial and fiscal support of domestic industry. The two countries underwent significant difficulties when undergoing the third, and final, phase of ISI during the 1960s and 1970s. They did not depart from their commitment to ISI, however, despite the new balance-of-payments problems that they experienced as the result of the oil shocks during the period. A shift in strategy toward the export-led approach was not possible at the time considering that there were many vested interests in maintaining the status quo, whilst these countries had to contend with substantial political pressures to maintain high levels of economic growth (Haggard, 1990:161-188).

Looking at Latin America as a whole it gained from the post-1950 worldwide expansion as there was significant demand for its commodities whilst also attracting foreign investments in infrastructure, industry, and agriculture; real GDP per person grew steadily until the 1980s when it began to fall sharply. After considerable pressure from the United States, Latin American countries started to adhere to tight economic reforms, and replaced state protectionism with import liberalisation and privatisation. They had to also commit to the creation of democratic regimes, placing a lot of pressure on the political leadership as a result of the economic difficulties experienced by countries in the region (Kennedy, 1993:202-207).

#### **4.3.1.3. South Korea and Taiwan (Export-led Growth)**

Both Korea and Taiwan immediately adopted import-substituting policies after World War II. This was as a result of major constraints such as post-war reconstruction, balance-of-payments problems, external shocks, and the severing of traditional market ties. The countries formed part of the American security sphere during that period due to the Korean War. Both of their private manufacturing sectors experienced significant growth in the 1950s but they had become dependent on American aid to finance ISI. Korea and Taiwan moved toward export-led growth in the early 1960s, focussing on the production of high volume, labour-intensive goods for export. These countries were in effect forced into this change of approach by the United States, since it had begun to decline the aid commitments it had provided them since World War II as a result of persistent balance-of-payments concerns (Haggard, 1990:51-99).

South Korea's growth can be described as nothing short of astronomic considering that at in 1957 its per capita GNP was exactly the same as Ghana's. Added to this phenomenon is the fact that both countries were under colonial rule for half a century and possessed a primarily agrarian economy. While Ghana's progress has been modest at best, South Korea is one of the wealthiest countries in the world having progressed to the core. This performance has been consistent throughout the region, as East Asian economies grew 7, 4 percent annually during the 1980s compared to the 1, 8 and 1, 7 percent in Africa and Latin America respectively. With their export-oriented manufacturing focus and pressing for low commodity prices, the economic structure of the East Asian nations diverged considerably from the predominantly



commodity producing developing regions who fervently backed higher raw material prices (Kennedy, 1993:193-195).

Kennedy emphasises that the region's economic growth has not been uniform and breaks it down into different stages of economic and technological development. Japan is East Asia's powerhouse and is at the forefront of technological advancement; it is followed by the Newly Industrialised Economies of South Korea, Taiwan, Singapore, and Hong Kong. The group adopted an export-led growth strategy and the countries were later dubbed the East Asian 'tigers' or 'dragons'. The next group comprises the Southeast Asian states of Malaysia, Thailand, Indonesia, and arguably the Philippines, whose economic growth had been primarily fuelled by Japanese investment. The underdeveloped countries of North Korea, Cambodia, Vietnam, and Myanmar formed the rear of this staggered level of development which became known as the 'flying geese', with Japan leading the way. One of the key elements that the 'tigers' shared was the commitment to exports, as opposed to an import-substitution strategy. Exports were increased and imports were reduced by maintaining the low value of the currency. They protected their own industries from foreign competition whilst taking advantage of the open international trading order and benefiting from favourable global conditions such as cheaper labour costs (Kennedy, 1993:196-200).

#### **4.3.1.4. ISI and Export-led Growth: The Compatibility of Divergent Trajectories**

No matter how strong the argument for open markets and an export-led growth strategy is, Hout (1996) argues that some of the most thriving export-oriented countries have developed industrial sectors through the application of import substitution. He refers to examples in the East Asian region where the Malaysian and Indonesian governments had not completely adopted international market integration policies by maintaining a separate automobile industry and by building medium-sized aircraft for the civilian market respectively. The adoption of export-led growth or import substitution is not as fixed a development decision as theorists like to depict. In reality they can be mutually beneficial whereby governments can implement both strategies, by giving greater weight to one or the other in varying sectors of the economy. Hout points this out in his study where he compared data between 84 developing countries over three periods between 1965 and 1992. He discovered that

there was a positive association between the two variables during the stated period, which led him to his argument that countries can adopt elements of export orientation and import substitution policies simultaneously. For example, both development strategies had a positive influence on foreign, as opposed to domestic, investment; foreign investors are able to gain an economic rent in a protected market and are also attracted to the cheap labour force that might be available in a developing country that adopts an export-led growth strategy (Hout, 1996:603-605,618)

In comparing the development paths of Latin American and East Asian countries, Haggard noted that both sets of countries in fact adopted import substitution and export-led growth strategies. He argues that neoclassical theorists, who looked to promote export-led growth through the success of the East Asian NICs, have ignored the economic, institutional, and legal reforms that accompanied the shift to export-led growth. In fact just about all developing countries entered the world-economy as exporters of primary products, the majority of whom have remained dependent on commodity exports. Local purchasing power is strengthened through these exports as they provide the finance needed for the importation of consumer goods. The next transition is toward the first phase of import-substituting industrialisation; the importation of selected producer goods and foreign borrowing create the foundation for local manufacturing, normally starting with nondurable consumer goods. The duration of ISI is usually dependent on the size of the domestic market, with the time period increasing proportionately with the size of the market. The second ISI stage is still characterised by the exportation of primary products and foreign borrowing, since the demand for imported capital and intermediate goods is increased due to investment in new industrial capacity. The further protection of new sectors perpetuates the resistance against exports. During the 1970s and 1980s Latin American countries underwent the final ISI phase of growth; this is when import substitution is supplemented with the rise of manufactured exports, although special incentives are usually required to promote exports (Haggard, 1990:13-14,25-26).

The industrialisation of countries currently adopting export-led growth strategies was preceded by a period of primary-product exportation followed by the first phase of import substitution. Import substitution continued in certain sectors but the major shift took place when incentives were directed toward the exportation of light, labour-

intensive manufactures. The policy of export-led growth differed considerably from import-substituting growth, in that both imports and exports began to increase considerably. The second phase of export-led growth was characterised by the development of more capital- and technology-intensive sectors. This phase is similar to the third stage of import substitution in many ways, despite the significantly more open nature of an economy that is predominantly based on exports (Haggard, 1990:26-27).

### **4.3.2. WTO-imposed Limits on Policy Options for Growth**

#### **4.3.2.1. The TRIPS Agreement**

The WTO's Agreement on Trade-related Aspects of Intellectual Property Rights was implemented after having been negotiated in the 1986-1994 Uruguay Round. Its influence pertains predominantly to copyrights and patents, but also includes trade secrets, trademarks and industrial designs. With regard to patents, WTO members are compelled to enforce minimum standards for intellectual property protection; tied to this is a dispute resolution and enforcement mechanism (WTO, 2011c).

The agreement has impacted developing countries negatively on both political and economic levels. One of the major TRIPS political handicaps lies in the difference in enforceability, which involves an imbalance whereby developing countries' obligations and developed countries' rights are enforceable; whereas developing countries' rights and developed countries' obligations are unenforceable. The dispute settlement mechanism (DSM) of the WTO is used when the patent-using (developing) countries do not meet their obligations; this does not apply when patent-holding (developed) countries do not meet their obligations. No developing country has made use of the DSM when a developed country has not met the obligation of transferring technology. The predominant reason for this lies in the substantial cost involved in mounting a case, as well as the possibility that the US and EU may retaliate. The second political handicap lies in the US and EU making use of the TRIPS' standards as the basis for bringing about more stringent 'TRIPS-plus' standards of patent protection in bilateral trade and investment treaties. The net result for developing countries would be a further diminishing of protection under TRIPS (Shadlen, 2002; Wade, 2003:623-625; WTO, 2011c).

The market for knowledge provides the space through which economic handicaps operate. By merely looking at the source of patent applications it is clear that the North is a net producer of patentable knowledge, whereas the South serves as a net consumer. The price of patentable knowledge to consumers is raised through TRIPS which in turn increases the flow of rents from South to North (Shadlen, 2002; Wade, 2003:624). Shadlen, Wade and Helpman (1993) question the claim purported by TRIPS defenders that increasing returns to knowledge generation in the North will result in greater innovation which will spread to the South. Furthermore, they feel that these price escalations further limit the South's access to scientific knowledge.

#### **4.3.2.2. The TRIMS Agreement**

Like TRIPS, the Agreement on Trade-related Investment Measures was created during the Uruguay Round. It goes even further than TRIPS in limiting the development space of developing countries; this is because it deals with a wider-ranging spectrum of their economic activity, whereas TRIPS is predominantly associated with patentable or copyrightable activity. Under TRIMS, trade rules were moved from the principle of 'avoid discrimination' between countries to 'avoid trade and investment distortions'. It aims to prohibit the majority of 'performance requirements' on foreign firms and views them as distortions. Performance requirements are banned under the TRIMS agreement in areas related to trade balancing, local content, export requirements, as well as requirements on public agencies to acquire goods from local suppliers. The Dispute Settlement Mechanism is utilised when a country attempts to enforce these requirements. The US and EU have been attempting to revise the current TRIMS agreement even further in order to forbid all performance requirements, which includes technology transfer, research and development, and joint venturing. India and Brazil prevented the ban from being approved as the US and EU pressed their agenda during the 2001 Doha Ministerial meeting (WTO, 2011c).

Supporters of the TRIMS agreement emphasise that exemption clauses were put into place to assist with the growth of developing countries. These clauses allow categories of developing countries 'special and differential treatment', but Pangestu (2002) states that these exemptions refer only to the time period for complying. The time period

does not relate to competitiveness or to the cultivation of infant industries, but is only focused on the administrative and legal handicaps that need to be overcome whilst getting in line with TRIMS enforcement. The range of 'special and differential treatment' that is permissible for developing countries is narrower as a result than it was prior to the inception of the TRIMS agreement.

#### **4.3.2.3. The GATS Agreement**

The General Agreement on Trade in Services, another Uruguay Round initiative, signifies the expansion of WTO rules from trade in products to trade in services. It offers total coverage in all internationally-traded services from banking to telecommunications and professional services. Many countries opposed the introduction of rules on services into the multilateral trading system but the WTO argues that FDI inflows will be significantly enhanced for developing countries through compliance with GATS commitments (WTO, 2011c).

As with TRIMS, GATS is grounded in its aspiration toward market liberalisation and fairness. The articles of the agreement are based on three predominant requirements, namely the 'most favoured nation' treatment, whereby all WTO member firms must receive equal treatment by a given government; 'national treatment' which emphasises the equality of treatment between all foreign service providers and domestic firms; and the 'market access' requirement which prohibits a government from capping the number of service suppliers and where they operate. GATS has a more substantial exemption provision than the TRIPS and TRIMS agreements, whereby governments can indicate the limitations that they experience in implementing certain commitments in specific service sectors; these exemptions have to be signalled right from the start however (WTO, 2011c). The GATS agreement interferes far more in domestic political economy than TRIPS and TRIMS do as it diminishes the ability for government to carry out its responsibility to its citizens through the provision of public services. Developing country governments are not able to follow the example set by successful developers of the past by shielding their own service industries from competition by major foreign firms (Grieshaber-Otto and Sinclair, 2002; Wade, 2003:628-629).

### 4.3.3. Contemporary Strategies for Development

#### 4.3.3.1. The ‘New Economic Model’

Economic reform undertaken in the post-WTO developing world has involved integrating national economies with the world-economy. Integration went beyond merely increasing market-based trade and financial flows, and included the harmonisation of ownership patterns, tax systems, legal codes and trade policy. Both Russia and China, former socialist states, have further entrenched themselves into the world market system, despite the former not being a fully-fledged WTO member as yet. China began its reform process in 1978 and underwent substantial trade and FDI liberalisation before its WTO accession in 2001 (Åslund *et al*, 1995:1-2; Wolf, 2001:185; WTO, 2011c). Countries that formerly adopted the ISI approach, as with the former socialist states, have directed their policies toward export-led growth. Theorists refer to this as the ‘New Economic Model’ (NEM), whereby economic growth is promoted through FDI and international trade. The model is based on the success of the East Asian NICs, but as eluded to earlier, it overlooks the fact that these countries were also interventionist despite their export-oriented approach (Narula, 2002:1).

Policies have shifted in Latin America in accordance with the NEM as tariff rates fell significantly from 24, 1 percent during 1986-90, to 11, 1 percent during 1996-1999; equivalent figures in East Asia show how tariff rates reduced from 20, 7 percent to 10, 4 percent. NEM has not been implemented evenly though, with Brazil and India managing to find a balance between the NEM-type liberalisation and ISI, whereas Mexico has adopted the model meticulously (Narula, 2002:1-2).

#### 4.3.3.2. Trying to Circumvent the WTO

The WTO has essentially threatened the existence of the developmental state. Economic development is at the forefront of government policy for this type of state and it fashions efficient instruments to attain this goal. These include creating new formal institutions; capitalising on fresh opportunities for trade and profitable production; and ensuring collaboration between citizens and officials through the creation of formal and informal networks. Bagchi notes that an important feature of a successful developmental state is that it is able to shift from state-directed to market-

directed growth, or vice-versa, and is also able to combine both state and market direction in a synergistic manner, when required (Bagchi, 2000:398-399).

Wade (2003) supports the adoption of the state-led approach and argues that despite negative criticism directed toward the implementation of the ISI approach, import replacement should be done better, not done less. He adds that protection alone is not enough but should form part of a larger industrial strategy whereby government-led import replacement goes with government-encouraged export development. He draws on the East Asian experience to illustrate how trade policy restrictions on certain imports did not prevent the rapid growth of other imports, resulting in an increase in the demand for foreign exchange; thus trade protection does not need to be 'anti trade' (Wade, 2003:634).

Gallagher (2007) agrees that developing countries need to preserve their national policy space. He uses empirical evidence to prove the success of the state-facilitated development policy that was adopted by the East Asian tigers and modern-day China. China is an example of a country following both approaches simultaneously, by forcefully exporting in accordance with changing comparative advantage, and by substituting certain imports as had been done by the successful East Asian developers. Developing countries need to utilise government policies to correct for market failures as trade is liberalised; these market failures include information, environmental, and coordination externalities, as well as imperfect competition (Gallagher, 2007:1; Wade, 2003:636).

Looking at statistics between 1980 and 2000, it is evident that those nations that adopted these policies experienced far greater per capita growth rates. East Asian nations adopted them, resulting in 5 percent per capita growth rates per year during the period, whereas Latin American countries experienced limited growth of around 1 percent during the same period as they implemented straight liberalisation strategies (Gallagher, 2007:1). Table 9 illustrates the various policy tools utilised by developing countries to correct for market failures and also indicates whether these instruments are still allowed by WTO rules. The symbols represent the following:



- “X” – not permitted under WTO
- “\*” – considered for elimination in the Doha Round
- “o” – still permitted

**Table 9: Policy Space for Development and the WTO**

Policy Instrument	Permitted	Agreement
<b>Goods trade</b>		
Tariff sequencing	*	GATT
Tax drawbacks	o	
<b>Intellectual Property</b>		
Selective permission for patents	X	TRIPS
Short patent timelines with exceptions	X	TRIPS
Compulsory licenses	o	
<b>Subsidies</b>		
Export	X	SCM
R&D	*	SCM
Distribution	*	SCM
Environment	*	SCM
Cost of capital	o	
<b>FDI</b>		
Local Content	X	GATT, TRIMS
Trade Balancing	X	TRIMS
Joint Ventures	o	
Technology Transfer	o	
R&D	o	
Employment of Local Personnel	o	
Tax Concessions	o	
<b>Other</b>		
Human Capital	o	
Administrative Guidance	o	
Movement of People	*	GATS
Provision of Infrastructure	o	

Source: Gallagher, 2007:1

**Table 10: History and Policies of GATT**

GATT Rounds		
Name	Dates	Objective
Geneva	1947	• adoption of GATT
Annecy, France	1949	• tariff reduction
Torquay, England	1951	• tariff reduction
Geneva	1956	• tariff reduction
Geneva ("Dillon")	1960-62	• tariff reduction
Geneva ("Kennedy")	1962-67	• tariff reduction • GATT negotiation rules
Tokyo	1973-79	• overall reduction of tariffs to an average level of 35% and 5-8% among developed nations • non-tariff barrier codes <ul style="list-style-type: none"> <li>o government procurement</li> <li>o customs valuation</li> <li>o subsidies and countervailing measures</li> <li>o antidumping</li> <li>o standards</li> <li>o import licensing</li> </ul>
Uruguay	1986-94	• broadening of GATT <ul style="list-style-type: none"> <li>o limit agricultural subsidies</li> <li>o include services trade</li> <li>o include intellectual property</li> </ul> • establishment of the WTO (World Trade Organization)

Source: Florida Gulf Coast University

It is apparent that there is a stark contrast between the trade policy regimes that were in place before and after the Uruguay Round of multilateral trade negotiations (refer to Table 10). GATT itself was somewhat detached from its developing country members in that there was little reaction to their policy violations. The introduction of a new policy regime in 1994 under the newly formed WTO resulted in a broader spectrum of regulations accompanied with measures to ensure their enforcement. WTO case law pertaining to these policies needed to be investigated in order to assess how WTO rules have restricted development measures, as well as how effectively they have been enforced (DiCaprio and Gallagher, 2006:781).

Gallagher emphasises the difficulty that countries face in attempting to evade the clutches of the WTO in order to encourage development. The rules negotiated in the



Uruguay Round limit the scope for countries wanting to implement aggressive development policies; furthermore the WTO has been stringent in the enforcing of these rules through its dispute panels. In fact, between 1995 and 2005 more than 25 percent of all WTO cases dealt with eroding the policy options at the disposal of developing countries and in all the cases the final ruling upheld the demand to eliminate the industrial promotion tool. Judging by the cases brought before the panel, it is clear that policies banned under WTO rules are still employed by developing and developed nations (Gallagher, 2007:1-2).

#### **4.4. Conclusion**

This chapter contends that the core powers have always adopted a degree of protectionism and infant industry nurturing during their development. The argument put forward is that the WTO prevents developing countries from adopting similar industrial and technology policies that were integral to the growth of older developed countries as well as the newly developed countries of East Asia. The three major agreements that limit these development policy options are GATS, TRIMS and TRIPS. The analysis of recent ascents in the modern world-system counters the myth of isolated developmental strategies. The work of Hout and Haggard suggests that successful developers generally adopt elements of export orientation and import substitution policies simultaneously. Being unable to shift from state-directed to market-directed growth, or vice-versa, significantly limits the policy options for the growth of developing countries. WTO rules make it difficult for South Africa to preserve its national policy space. The following chapter will propose development strategies for South Africa in spite of these restrictions.

## **Chapter Five**

### **How South Africa can get into the Core**

#### **5.1. Introduction**

It was stated from the outset that the proposed strategies for South Africa's growth would be made holistically by making use of the modern world-systems theoretical approach. The time scope used for this analysis is a 15-20 year period. The strategies that endeavour to foster South Africa's future growth toward the core group of states need to be sensitive to the global environment that the country is likely to operate in during the period. A deeper understanding of what the nature and structure of the world-system will look like in 2025 is therefore needed; this will involve predicting what the balance of power in the system will be around this time. The development strategies that will be proposed after this will follow the holistic approach set out by MWS theory. These strategies, although meant to be viewed as one combined approach, will be broken down into political, economic and sociocultural development strategies.

#### **5.2. The Structure of the World-System in 2025**

After assessing of the trajectory of the world-system as a whole up until 2025, Hopkins and Wallerstein (1996) believed that one of two possibilities will occur. In the *The Age of Transition: Trajectory of the World System, 1945-2025*, they postulated that the world-system will either continue as it has done for the last 500 years, or it will decline gradually until it reaches a point of systemic chaos. More than a decade later, Wallerstein (2011) believes that the world-economy is not experiencing a recession, but rather a depression and that it has been stagnant since the 1970s. He notes that during this period unemployment increases drastically, and politicians call for austerity as they attempt to deprive the elderly and the pre-working-age population of income in order to pacify their working-age voters; this entails cutting pensions, education and child care. As stagnation continued the media began to talk about a financial crisis and its impact has been felt across the globe (Wallerstein, 2011).

Every state in the United States, according to Wallerstein (2011), is required by law to maintain balanced budgets and thus are not permitted to meet current budgetary

needs through borrowing. The countries in the euro zone are experiencing a similar problem considering that they cannot meet their budgetary needs by deflating their currencies; these countries have to deal with excessive unsustainable costs because they are able to borrow. Wallerstein notes that emerging economies, especially the BRICS countries, have been experiencing sustained growth during the last few years; but emphasises that global economic stagnation has impacted these countries significantly despite this. The Chinese government is concerned over the threat of inflation, and the resultant increase in layoffs, due to the loose lending practices of Chinese banks; Brazilian president, Dilma Rousseff, is believed to be anxious about the competitiveness of her country's exports being threatened due to an overvalued Brazilian currency that is operating alongside what she views as deflated U.S. and Chinese currencies; the Russian, Indian and South African governments are grappling with widespread discontent from population groups that feel that they are not benefiting from the economic growth that their countries are experiencing. The states in the world-system will also have to look beyond domestic problems brought about by the economic downturn as the prices of energy, food, and water increase substantially (Wallerstein, 2011).

For the purpose of this study it will be assumed that the world-system will continue as it has done. Even if it were to undergo a transformative phase, whereby the system potentially collapses and is replaced by another one, it is unlikely that this will occur within the next fifteen years. With the world-economy still in a B-phase (1973-2025), capital needs to be moved from the declining to the rising sectors in order for profit rates to improve, i.e. from the core to the periphery or semi-periphery; these countries will benefit from this and will have the opportunity to move up the system. The next section will focus on the balance of power that will ensue within the world-system around 2025. The argument put forward is that the ushering in of a new hegemon is a lengthy process, one that will probably not have taken root by this time; thus 2025 will almost certainly be characterised by a multipolar world-system. The true impact of China and India's growth will most likely only be felt closer to 2050.

### **5.3. Power Shift within the Multipolar World-System**

Wallerstein proposed that a system characterised by out of control economic fluctuations and multipolar anarchy, presents the most likely scenario for the balance

of power in the world-system in 2025. This is the result of a long and difficult process of hegemonic transition and because of the problems that will be experienced in global capital accumulation (Wallerstein, 2006). The National Intelligence Council in America compiled a comprehensive report entitled ‘Global Trends 2025: A Transformed World’, wherein it identified key trends that are likely to occur in the next fifteen years. According to the report, it is a relative certainty that a global multipolar system will emerge by 2025, primarily driven by the rise of China and India. Power will be more dispersed because of this change and could potentially lead to the weakening of traditional Western alliances, as new rules are likely to be introduced by the newer players. China’s alternative developmental model will begin to become more attractive to developing countries as opposed to Western models of political and economic development. The overarching and undeniable trend driving these changes is the intensification of the transfer of economic power roughly from West to East (National Intelligence Council, 2008: iv,28-36).

Wallerstein recalls that as recently as 2003 discussions pertaining to the decline of the United States were deemed to be outlandish; this opinion has changed considerably however as this belief has become prevalent among theorists, policymakers, and the media. The United States’ pre-emptive invasion of Iraq proved to be one of the key indicators of its waning political, economic and cultural influence; the invasion transformed the situation from one of gradual decline into one of imminent collapse. Not only had the United States lost its credibility as the sole political and economic leader of the world-system, but its extensive military power had also begun to erode rapidly. Despite recent events, Wallerstein claims that American hegemony reached its peak around 1970 and has been fading ever since (Wallerstein, 2007:54). He observes that U.S. decline has reintroduced multipolarity in the world-system and only views the country as a strong power in the multipolar world; its position will become even less influential as this new geopolitical situation develops (Wallerstein, 2007:59).

The European Union is an impressive structure according to Wallerstein (2010); it houses a common currency, and has a central bureaucracy and a human rights court. He contends that Europe is imploding in spite of this structure, predominantly due to Greece and Belgium. The severe sovereign debt crisis currently being experienced in

Greece has been well publicised, and the fact that it is a member of the eurozone means that it cannot devalue its currency to lighten the financial strain. Wallerstein postulates that if Greece receives financial aid, which it is likely to receive in November 2011, it will be closely followed by other European countries making similar demands, such as Spain, Ireland, Italy and Portugal. The Greek problem threatens to be replicated elsewhere in Europe and time will tell whether the euro can survive. The Belgian problem could pose a much greater threat to the stability of the EU on the political and cultural levels. Belgium was created as a result of pan-European politics and has undergone a constant struggle for power between the Dutch-speaking “Flemish” and French-speaking “Walloons”. The country has been on the verge of coming apart for some time now and a crisis in Belgium could easily spill over into a European crisis. The reason for this is that both parts of Belgium are members of the EU and a split could potentially lead to the break-up of other existing European states; furthermore, Brussels is more than just the capital of Belgium, it is the capital of Europe and its fate cannot be arranged without difficulty (Wallerstein, 2010).

According to the National Intelligence Council, growth projections for the BRIC countries alone – prior to South Africa’s inclusion – indicate that by 2040-2050 this group of countries will at the very least match the share of global GDP held by the original G-7 countries. Figure 10 illustrates how dramatic this shift in power will already be in the direction of these emerging countries by 2025. The Council predicts that China will exert a greater influence on the international system over the next two decades than any other country. It estimates that it will have the world’s second largest economy, overtaking the entire EU, and will be a significant military power, by 2025. Brazil, India, and Russia will also experience rapid economic growth during the period. This is especially the case for India who will probably push for a multipolar world with New Delhi as one of the poles. China, India, and Russia have largely adopted ‘state capitalism’ as their model for self-development, instead of the Western liberal model. The term refers to a system of economic management wherein the state carries out a central role and is not a new method of development, as recent developers like Taiwan, South Korea, and Singapore can attest to (National Intelligence Council, 2008: vi-vii,28-36; National Intelligence Council, 2010:11).

**Figure 10: The New Players by 2025**

Source: National Intelligence Council, 2010

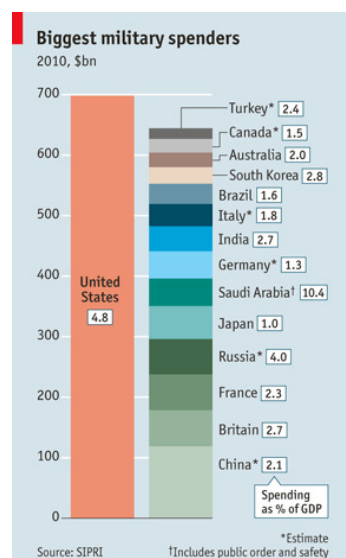
Sengupta (2003) believes that China's entrance into the WTO is the most important factor aiding its ambition to become an economic superpower. This has given rise to new possibilities for foreign investments, as large firms will be able to take advantage of the massive Chinese market. The considerable size of the Chinese population proves to be another major factor leading to its economic growth. Rising incomes and an increasing demand for consumer goods has significantly increased domestic consumption, providing a window of opportunity for foreign businesses. China should be able to successfully develop its economy if it continues to make use of its large population and open up to world economies (Sengupta, 2003:392-395).

It is important to look at India's growth in relation to China's, as they are undergoing similar growth patterns having recently been peripheral states. Eslake (2005) believes that although China has the competitive edge over India, this could change in the longer term as India is more efficient with regard to capital investment and energy consumption. Another important issue relates to the demographic challenge that China faces. Its 'one-child' policy has resulted in a population with a median age of 34, compared with 25 in India. By 2025 13, 7 percent of China's population will be aged 65 or over, with only 8, 1 percent in India. The United Nations estimates that

India's working age population will overtake China's by 2030. It is also a more politically stable country, guided by democratic principles; the same cannot be said for China (Eslake, 2005: 5).

Figure 11 illustrates that China's hegemonic aspirations move beyond competing in the world-economy, as it is currently the world's second highest military spender. The country's defence spending has increased by approximately 200 percent since 2001 and is believed to have reached around \$119 billion in 2010; this expenditure has remained relatively constant as a share of China's GDP despite the substantial increase. The United States is still far ahead of its competitors in its defence spending as the \$700 billion it spent on the military in 2010 is larger than the next 17 countries combined; the country's budget crisis, however, could potentially lead to a reduction in defence spending however. It is noteworthy that four out of the five BRICS countries are among the top 11 biggest military spenders in the world (The Economist, 2011). South Africa has clearly allowed its military to diminish in size and influence, and at best can be described as fulfilling a peacekeeping role. This indicates that the country does not have hegemonic aspirations, but that does not mean that it does not desire to reach core status.

**Figure 11: Biggest Military Spenders in 2010**



Source: The Economist, 2011

In summary, major changes will not occur in the power structure of the world-system by 2025 seeing that it is not too far ahead in the future. This means that the outcome

of the transitional phase within the world-economy will not reach fruition by the end of this period. More accurate predictions could be made if the aim was to assess what the world-system would look like in say 2050. China is unlikely to become a fully-fledged hegemon in the next fifteen years, as it will still be militarily weaker than the U.S., even if it could overtake the superpower in economic terms. Nor will the status of hegemon be reached by the EU or by a rapidly expanding India during this period. The year 2025 will serve as a crossroads, with the balance of power at that moment being multipolar. Nevertheless, it is evident that the power structure within the current multipolar world-system is beginning to shift toward the Global South.

#### **5.4. South Africa's Internal and External Strategies for Ascent**

In keeping with the holistic approach promoted by modern world-system theorists, McGowan included economic, political, and cultural factors, in his evaluation of what the necessary components for national development entail. He purports that ascent in the political-economic hierarchy of core, semi-peripheral and peripheral states, is dependent on a combination of attaining long-term economic development, which forms the base for upward mobility in the world-system; a strong state that is viewed as politically stable and legitimate (combined with sound public and foreign policies by the state); and domestic and international cultural strength and influence (McGowan, 1993:37). The development strategies that will be proposed in this section follow the holistic blueprint set out by MWS theory; this will be combined with an assessment of whether South Africa is poised to utilise the most optimal ones in order to put the country in the best possible position to attain core status within the next fifteen years. These policies will be placed within the context of the internal and external constraints and incentives that need to be addressed and exploited respectively; they will be discussed in the following chapter.

##### **5.4.1. Economic Strategy**

###### **5.4.1.1. Attaining the Right Mix of Strategies**

According to the modern world-system theoretical approach there are three available strategies for ascent within the world-system. They are ascent by means of seizing the chance (import substitution); promotion by invitation (an export-led growth strategy); and ascent through the strategy of self-reliance (closed national approach). In addition, purely semi-peripheral growth requires a state to have a large enough market



for its products that are produced as cost-effectively as possible; the semi-peripheral growth strategy should not be viewed in isolation and will form part of South Africa's political and economic incentives discussion in the final chapter.

Chapter four focused on recent ascents in the world-system that have adopted these strategies, with Mexico and Brazil adopting an import substitution industrialisation strategy, South Korea and Taiwan focusing on export-led growth, and China and Russia favouring the path of self-reliance. The chapter also discussed WTO-imposed limitations on policy options that are at the disposal of countries wanting to implement protectionist policies. Wade (2004) and Chang (2003) described the neoliberal development agenda as an attempt by the core countries to maintain the status quo, essentially 'Kicking away the Ladder'. The reason behind this argument, one held as far back as the writings of List (1885), lies in the fact that during their paths to development the majority of core countries actively endorsed protectionist policies.

Trade is an important element in any country's development; it is for this reason that self-reliance should not be considered as a conceivable strategy for South Africa's ascent in the current world-system as this will only lead to the country's isolation. South Africa's long-term economic growth strategy should rather focus on a combination of the ISI and export-led growth strategies (Table 11). These strategies are mutually beneficial and the limitations inherent in each one, when adopted in isolation, can only be overcome by attaining the correct balance between the two in different sectors of the economy. It was already mentioned that Latin American and East Asian countries adopted both sets of strategies during their recent development. Bagchi (2000) described earlier how a successful developmental state has the ability to switch gears from market-directed to state-directed growth. It was also mentioned that Wade (2003) supported the state-led approach but insisted that every effort should be made to implement import replacement more effectively. He added that this needs to form part of the government's larger strategy which also incorporates the encouragement of export development.

**Table 11: Development Strategy Proposal for South Africa**

	Import Substitution	Self-Reliance	Export-Led Growth
Proposal for South Africa	✓	X	✓

Where has the introduction of the WTO left South Africa considering that these authors, as well as Hout (1996) and Haggard (1990), noted that the majority of successful developers did so by adopting a combination of the import substitution industrialisation and export-led growth strategies; despite the neoliberal contention that their development was achieved purely through the latter strategy. The possibility of circumventing the WTO was explored toward the end of the fourth chapter, but DiCaprio and Gallagher (2006) and Gallagher (2007) emphasised how difficult it would be for countries to implement aggressive development policies considering that these rules have been rigorously enforced through the organisation's dispute panels.

Seeing that South Africa cannot maneuver itself effectively within the WTO, it would appear that the institution has threatened the existence of the developmental state for the most part. This may well have been the case if it were not for new, and potentially transformative, developments within the power structures of the world-system at large. The real incentive for South Africa might actually lie in the extension of South-South trade whilst the world-system is in its current B-phase of growth; the phase that allows the semi-periphery to push for structural and institutional change. The neoliberal development agenda could be challenged by the emergence of what is being termed the 'Beijing Consensus', which could provide South Africa with the opportunity to preserve its national policy space by adopting a state-facilitated development policy. Wade (2003) and Gallagher (2007) mentioned how China has benefited from adopting this approach through a combination of the ISI and export-led growth strategies. This could serve as one of South Africa's major economic incentives over the next fifteen years in an attempt to move into the core group of countries.

## **5.4.2. Political Strategy**

### **5.4.2.1. Government Policies to Resemble that of a Developmental State**

Despite there being no single definition of a developmental state, Gumede defines it as a state that is “active in pursuing its agenda, working with social partners, and has the capacity and is appropriately organised for its predetermined developmental objectives” (Gumede, 2011:2). The question pertaining to whether or not South Africa can be classified as a developmental state has resulted in many ongoing debates that have reached little consensus. Weiss (2000) believes that South Africa is a developmental state because it exhibits a commitment to create a developmental state; it possesses an independent political and technocratic elite; and the government is relatively well connected to the private sector. Edigheji (2005) argues that South Africa embodies the four principles of a democratic developmental state, namely state driven socio-economic development; economic growth; electoral democracy and popular participation in the development and governance processes; and embedded autonomy.

Gumede (2011) supports neither argument but rather believes that South Africa can be classified as a developmental state in the making, but identifies the country as a fairly weak one. He explains this further by contending that even though South Africa cannot be classified as a fully fledged developmental state, it has many of the necessary attributes and most of all it appears that concerted efforts are being made to make sure that it becomes one. South Africa is one of the only countries to have publicly declared that it wants to be a developmental state and it is clearly captured in the ANC’s revised 2007 Strategy and Tactics document. The government also launched the Medium Term Strategic Framework (MTSF) for 2009 to 2014 in response to the country’s developmental challenges; it is clear that the MTSF contains the same vision of a developmental state:

“These efforts have the potential to lay the foundation for a social compact among South African social partners in ensuring a speedy recovery and setting the country on a higher and more inclusive growth and development trajectory. At the core of this should be efforts to build a developmental state with the strategic, political, administrative and technical capacity to give leadership to this process, and an active civil society” (South African Government, 2009:5).

The Congress of South African Trade Unions had already begun to analyse why the countries of East Asia managed to industrialise so rapidly in its policy document

drafted for the central committee in 2005 entitled 'A Development State for South Africa'. The union proposed that South Africa's development strategy should focus on improving socio-economic conditions and the reduction of inequality. Its primary economic proposal was that the country should base the building of its export industries on the development of the domestic market instead of relying on world markets to spontaneously bring about their emergence (COSATU, 2005:1-16).

According to Edigheji (2010), the financial crisis has reinforced the notion that markets cannot always be self-regulating and has emphasised the importance of state interventions; thus making a stronger case for the formation of developmental states. He agrees that the ANC has already recognised the importance of creating such a state in order to address the country's developmental challenges and feels that South Africa is in a better position than most late developers to construct a democratic developmental state because of this early realisation. Sceptics do point out, however, that the potential for a developmental state in South Africa is fraught with difficulties. One of the reasons is that the country's constitutional democracy cannot coexist with development considering that democracy and development are often viewed incompatible ideals; it is difficult for a state to promote economic growth and address poverty, inequality and unemployment at the same time. The fact that developmental states generally occur in resource-poor countries, such as in East Asia, could prove to be another obstacle. One of the major talking points in the debate on the formation of a developmental state in South Africa has involved the utilisation of the country's mineral wealth; the ANC Youth League has for example been pushing for the nationalisation of the mines. Rising levels of corruption in the public and private sectors serves as another deterrent to the government's ability to create a democratic developmental state (Edigheji, 2010:1-4).

Andreasson (2007) questions whether South Africa has the social preconditions to create a developmental state. He argues firstly that the government does not have the ability to carry out national mobilisation due to historical domestic divisions within the country. He rightfully argues that divisions exist within the ANC's tripartite alliance as well when one considers that the government's economic policy is almost completely market-driven, even though COSATU and the South African Communist Party continue to promote socialism (Andreasson, 2007:7-8). Andreasson took note of

the fact that successful developmental states ensured improvements across all of the dimensions of development, which includes the levels of poverty, inequality and unemployment. He also brings the country's skills shortage, and poor health and violent crime records into the discussion in his assessment that there is no evidence of this developmental success in South Africa. Another important point relates to the social cohesion that is required in order to mobilise the nation toward a developmental state. Andreasson believes that development will continue to be hindered in South Africa until it finds a regional solution to deal with Zimbabwe's problems, as he feels that national borders cannot confine social stability (Andreasson, 2007:8-10).

Andreasson and Edigheji raise valid points regarding the difficulty in creating a developmental state in South Africa such as a lack of social cohesion, poor socioeconomic conditions and high levels of corruption. The argument here however is not that South Africa should recreate the modern-day developmental state of a country like China. What opponents to this approach neglect to raise is that all successful developers in the modern world-system have relied on a strong, development-oriented, state that could direct the country's economy back-and-forth from an inward to an outward-oriented approach in various sectors of the economy and at different stages of that country's development. None of the developed states contained all of the attributes required for a developmental state when they were first incorporated into the periphery of the world-system. The cultural and socioeconomic preconditions were only created once strong political structures were put in place with the intention and ability to direct the country's development. The South African government clearly shows the necessary intention to drive the country's growth, despite the drastic need for improved socioeconomic conditions proving to be a major obstacle. South Africa may well possess the social cohesion necessary for a developmental state; this and the other significant cultural aspects will be looked at in the following section.

### **5.4.3. Sociocultural Strategy**

#### **5.4.3.1. Improving South Africa's Soft Power in the World-System**

Cultural strength and influence is a crucial, although often overlooked, component for national development. Wallerstein (1984) explains the cultural component as the extent to which the values of the state and society complement each other. He argues

that these values are more closely matched in core and semi-peripheral states than in peripheral ones. According to McGowan, key cultural drivers include a state's linguistic, ethnic, religious, cultural, educational and sporting achievements and characteristics. He mentioned how important the interconnection of cultural, political/military and economic strength is to the United States. American success in the cultural sphere is attributed to its 'Coca Cola' culture, illustrious universities like Harvard and MIT, and 'high' cultural organisations such as the Metropolitan Opera in New York (McGowan, 1993:37; 41). Mingst (1998) supports McGowan's view that a stronger national identity is formed in countries that possess a number of ethnic groups; she also points out that cultural integrity, or homogeneity, is promoted in those that share a common language.

South Africa's global cultural influence is enhanced by its peace-promoting foreign policy as well as through its participation in global forums such as the G-20, the G-24, IBSA and BRICS. McGowan (1993) believes that the country's greatest cultural strength vis-à-vis the group of upper middle income countries, lies in the fact that it is a member of the English-speaking world. It was mentioned previously that the quality of South Africa's academic institutions also sets the country apart, as it possesses eight of the top ten ranked universities on the African continent and five out of the top 700 global universities. The exportation of popular culture has resulted in impressive achievements in music and cinema added to the fact that the country hosts a number of prestigious cultural festivals; but it is through its achievements on the sporting front that South Africa has gained prominence of late (McGowan, 1993:342-43; Van der Westhuizen, 2002:9-10; Webometrics, 2011)

National sentiment was at an all time high in 2010 due to an exceptionally well hosted 2010 FIFA World Cup. With the eyes of the world focused on South Africa during June and July that year, the event served as a major boost for the country's global marketability. Furthermore, the event eclipsed the unifying force that was experienced by the country's multicultural society during the 1995 Rugby World Cup. Events such as these prove McGowan's (1993) notion that South Africa's linguistic, cultural, ethnic and racial diversity should not be viewed as an inherent cultural limitation that weakens the economy and leads to political instability and violence.

Mingst (1998) believes that societal congruity is also promoted through the government's support of employment, education and healthcare; this reinforces the population's belief that it forms part of an integrated society. Sunter (2008) mirrors this argument by stating that the developed countries, which he refers to as Premier League teams, exhibit inclusive leadership and unity. He noted recently that there was a greater sense of unity and purpose amongst South Africans during the World Cup; crime statistics even fell sharply during the tournament (Sunter, 2011). Sunter views social harmony and unity of spirit as a necessity if South Africa aims to achieve long-run success in the global economy. This type of harmony or enhanced sense of patriotism requires an inclusive economy, which is why socioeconomic conditions will be included in this discussion because of the potentially divisive role it can play in the fostering of a unified culture in South Africa's multicultural society (Sunter, 2008).

One need look no further for the importance of improving the country's socioeconomic conditions than Julius Malema, who has grabbed headlines due to his populist tactics directed toward unemployed and marginalised South Africans. Sunter (2011) lauds Malema for putting pressure on the country's business and political establishment to implement more radical measures to transform a society which can be described as lop-sided and elitist. He does however challenge Malema's tactics to get there, most notably nationalisation and land grabs, and says that they are "dead-end policies" regardless of whether compensation is provided or not. Nationalisation without compensation will most likely lead to the reintroduction of sanctions against South Africa by the U.S. and EU; whereas nationalisation with sanctions will mean that approximately a trillion rand will be required to purchase the targeted assets, which will either be sourced by government borrowing or by diverting funds from welfare, education, health and law and order. The impact that land grabs could have on the country is not certain; the worst case scenario is that it could result in a civil war, especially when liberation songs like 'Kill the Boer' are used to antagonise portions of the population. Sunter believes that in order for unity to prevail in South Africa, and improve the country's prospects for economic development, black South Africans should stop singing provocative songs about white South Africans, who in turn should stop being ignorant by dismissing African history (Sunter, 2011).

It is evident from the aforementioned that South Africa should focus on promoting a greater sense of unity and developing its current cultural strengths, such as the hosting of international sporting events, furthering its participation in global organisations, and increasing its investment in its higher education institutions. South Africa's socioeconomic situation is less impressive however and it should address its limitations in health, education, unemployment, inequality and poverty urgently before it erodes the unity that the country has built up since the first democratic elections in 1994.

### **5.5. Conclusion**

This chapter put forward economic, political and sociocultural strategies for South Africa's ascent in the modern world-system. Economically it was proposed that South Africa should continue with the developmental approach utilised by the current core powers, which entails a combination of the outward strategy of export-led growth and the protectionist strategy of import substitution. Politically it was suggested that the South African government should adopt a developmental approach similar to the structure of developmental states; and on the sociocultural level the country should strengthen its domestic and international soft power and work on fostering a sense of unity amongst its citizens.

The final chapter will assess whether South Africa is poised to utilise the most optimal strategies proposed in this chapter in order to put the country in the best possible position to attain core status within the next fifteen years. These development strategies will be placed within the context of the internal and external political, economic and sociocultural constraints and incentives that need to be addressed and exploited respectively.



## **Chapter Six**

### **Concluding Remarks**

#### **6.1. Introduction**

The final chapter will assess whether South Africa is well positioned to adopt the development strategies proposed in the fifth chapter by placing them within the context of the internal and external constraints and incentives that need to be addressed and exploited respectively. The impact of these constraints and incentives will be assessed by placing them within their economic, political and sociocultural spheres of influence. Economic incentives include South-South trade in the current B-phase and capitalising on Africa as South Africa's external market. Economic constraints comprise the mineral-energy complex, the limited control over the wage effects of labour unions, levels of technology and infrastructure, and affirmative action and the brain drain. Influential political incentives that have been identified are democratic consolidation and utilising foreign policy as a partnership-building tool; whereas corruption, crime and xenophobia serve as noteworthy political constraints. A significant sociocultural incentive involves developing Brand South Africa; unemployment, poverty and inequality are major sociocultural impediments. The chapter and thesis will end off with a summary of the findings for the study and will be followed by the drawing of a conclusion, as well as recommendations for further research.

#### **6.2. Incentives and Constraints for Development**

##### **6.2.1. Economic Incentives**

##### **6.2.1.1. South-South Trade in the Current B-Phase**

Arrighi and Zhang (2010) termed the occurrence of China's increasingly strong economy and the rapidly changing relations between the global North and South, the 'strange death of the Washington Consensus'. What they feel is odd about this 'death' is that it has gone largely unnoticed during a period characterised by the unquestionable acceptance of the neoliberal doctrines promulgated by the Consensus. Even though the Washington Consensus was declared as a new developmental strategy, its primary aim was the reestablishment of U.S. power. Purporters of the neoliberal developmental approach have justified its adoption by pointing to trends since 1980 that state that there has been a reduction in global levels of income

inequality and poverty. Arrighi and Zhang, as well as other theorists such as Berry (2005), purport that this occurrence can only be attributed to the combined performance of China and India (Arrighi and Zhang, 2010:1-4).

The Chinese ascent in the world-system has discredited and challenged the Washington Consensus. According to Arrighi and Zhang, this has resulted in the move toward a 'new Bandung' with the emergence of a new Southern Alliance, stronger than the one created at Bandung in the 1950s which had been predominantly politically and ideologically motivated. Ramo (2004) believes that the emergence of China represents the withering away of the Washington Consensus and the ushering in of a Beijing Consensus (although no formal consensus exists); which does not advocate adopting standardised solutions for each situation, but rather promotes flexibility in development paths and independence by giving countries the freedom to protect their policies, interests, and national borders (Arrighi and Zhang, 2010:28; Ramo, 2004:3-4).

Southern Cooperation currently takes place in a variety of fields and is based on increasing the competitiveness of Southern countries in world production through South-South trade and investment. The four countries that are most prevalent behind the move in this direction are China, India, Brazil, and South Africa (CIBS). Arrighi and Zhang (2010) argue that criticism directed toward the exploitative relationship between the CIBS countries and other Southern countries does not take account of the entire picture. This relationship affords other Southern countries greater terms of trade, investment, and aid, than that provided by Northern countries. This also creates an environment which compels Northern countries to give in to competitive pressures by providing Southern countries with more favourable terms of trade than they otherwise would have done (Arrighi and Zhang, 2010:33-34).

South-South trade predominantly through the CIBS countries has led to, and will increasingly lead to, a change in the balance of power in the world-system. This is no surprise considering that the modern world-system theory states that semi-peripheral mobility is much more likely when the world-economy is in a B-phase of growth. South Africa should make use of this opportunity to further its trade within the Global South. Furthermore, this Southern Alliance should provide the country with the

opportunity to tilt the terms of trade, which it currently holds with the core powers in the North, in its favour. As a semi-peripheral state, South Africa is still heavily reliant on trade with these countries but the increased relational power that it enjoys vis-à-vis the industrialised North may provide it with the window of opportunity that it needs to challenge for core status.

#### **6.2.1.2. Africa as South Africa's External Market**

The DTI (2011d) describes South Africa as the economic powerhouse of the African continent and as one of the most sophisticated emerging markets globally. That is not surprising when one takes note of the fact that the country's GDP of R2, 3 trillion is four times larger than its Southern African neighbours combined, and comprises 30 percent of the entire continent's GDP. The country accounts for around 40 percent of Africa's industrial output, 45 percent of its total mineral production, and generates more than half of the continent's electricity (DTI, 2011d). South Africa is clearly the dominant economic player on the African continent and considering that one of the prerequisites for a country's growth beyond the semi-periphery involves securing a large enough market for its national products; South Africa finds itself in the perfect position to utilise its relational power in order to capitalise on the African market.

According to Alden and Soko (2005), having understood the opportunity that this market presents for the country's development, the South African government believes its long-term political and economic future to be tied to Africa. The continent forms an integral part of the country's South-South cooperation, something which the DTI terms the 'butterfly strategy'; which depicts South Africa at the proverbial head of the insect with rest of the African continent comprising the body. By using this strategy the country's trading wings can open up from Africa to North and South America and to East Asia (Alden and Soko, 2005:369). It is vital that the South African government structures its foreign policy in a manner that allows it to get the most out of its economic relationships in Africa and further afield, as chapter three painted a negative picture pertaining to the hegemonic attributes found within South Africa's regional trade activity. The most appropriate structure of the country's foreign policy will be looked at in greater detail in the political section, in order to avoid the growing negative sentiment that African countries hold pertaining to South Africa's influence on the continent.

## **6.2.2. Economic Constraints**

### **6.2.2.1. Mineral-Energy Complex**

Padayachee (2006) contests the upbeat point of view that is often depicted regarding the South African economy and states that since 1994 it has been characterised by low levels of growth and investment, and a moderate increase in employment. Fine and Rustonjee (1996) explain that the structure of South Africa's economy should not be looked at conventionally as a breakdown of agriculture, mining and industry; but should rather be understood through the historical legacy of the mineral-energy complex. The authors argue that the country's various economic activities that are centred on heavy materials management were developed through its initial financial and material base in gold mining. They point out that the powerful financial groupings that put the structures in place for gold and diamond mining were responsible for past successes in industrial metals mining such as iron, steel, timber and chemicals. By looking at South Africa through the mineral-energy complex, it fosters greater understanding as to why the country's capitalists and policy makers are so fixated on this specific industrial path, and sheds some light upon why it does not fit well into international models of industrialisation. The authors contend that industrial restructuring and the endorsement of small and medium-sized enterprises will take a long time to deflect economic forces from this path; but call for a more demand-rich, inclusive and skills-based economy nonetheless (Fine and Rustonjee, 1996).

It was mentioned in previous chapters that South Africa shifted from an ISI growth path in the early 1990s to a more open approach that entailed having to compete in the global economy. Manufacturing enterprises were supposed to be equipped with the tools necessary to deal with this increased competition through a new industrial policy environment and government support measures. Padayachee contends that only a few segments of industry were able to upgrade sufficiently enough to achieve manufacturing excellence; in fact the majority of firms continued to be uncompetitive (Padayachee, 2006:7-8). The fact that South Africa's service sector has expanded significantly during the last couple of decades indicates the longer-term trend of the economic growth being dependent on services as opposed to primary and manufacturing production (Cassim, 2006:57-58).

#### **6.2.2.2. Limited Control over the Wage Effects of Labour Unions**

Another vital element for semi-peripheral growth involves governmental control over national wage levels (Wallerstein, 1974a). The raising of wages cannot be controlled easily by the ANC due to its tripartite alliance with COSATU and the SACP. This means that the government will always need to pay close attention to wage levels in order to be sensitive to labour union demands. South Africa experienced industrial action and lightning strikes throughout 2010, but the government rejected the demand from a coalition of unions to have an 8, 6 percent salary increase as well as a R1000 per month housing allowance. The coalition, which represents more than one million public servants, launched a country-wide strike in August that year in order to place additional pressure on the government (World Bank, 2011e). Wage levels are difficult to control as it is, without having a split in the ruling party regarding labour rights and the level of adequate remuneration. The government needs to reach a balance between attaining optimal cost levels and the livelihood of its labour force. It would go against South Africa's developmental ideals if that livelihood is jeopardised.

#### **6.2.2.3. Technology and Infrastructure**

Chapter three indicated that South Africa's level of infrastructure and technology is on par with other semi-peripheral states; this is not only vital for the country's economy but is also relied upon by its neighbours. This achievement is misleading however as South Africa does not perform well on all levels. According to the World Bank, South Africa is far behind the upper middle income group level of internet users as well as high technology exports (World Bank, 2011a). Dixon believes that future possibilities that will be brought about through networking are still in their infancy. The internet will transform the lives of people in urban as well as in rural areas, even though the world has not begun to see its true potential as yet. The world-system will be separated into two groups, the information haves and the information have-nots. Countries will be segregated internally by these two groups as well, with its future prosperity dependent on having a favourable proportion of haves over have-nots (Dixon, 1999:16-23). The internet, and advances in technology will most likely entrench differences between the three levels in the global division of labour. If South Africa wants to reach the core, it will need to keep up with new and rapidly changing forms of technology in order to have a competitive edge during its ascent in the world-system.

#### **6.2.2.4. Affirmative Action and Brain Drain**

The developmental benefits of affirmative action are not questioned, especially considering South Africa's need to deal with high levels of poverty, unemployment, and inequality. The problem lies in its implementation in the midst of growing perceptions that this is being done in an unstructured and haphazard manner, which results in specialist positions being filled by inadequately qualified personnel. The poor service delivery that results will have a negative impact on the country's productivity levels. The positive spin off has been the formation of a substantial black middle class; whereas on the negative side, affirmative action has led to a considerable brain drain in the country. South Africa is experiencing this at increasing levels, as a high proportion of the country's educated citizens are emigrating in order to find employment. Visser (2003) believes that the brain drain of skills leaving South Africa is considerable but argues that it is a sign of a maturing nation. He explains that every country has experienced a period when many of its citizens are spread out across the world. Various institutions such as The Homecoming Revolution have been setup in order to reverse South Africa's skills shortage.

#### **6.2.3. Political Incentives**

##### **6.2.3.1. Democratic Consolidation**

South Africa is a multiparty parliamentary democracy in which constitutional power is shared between the president and the Parliament. This democratic system is characterised, however, by single-party dominance in the form of the ANC. South Africa has held four relatively peaceful elections since the country's transition from apartheid to constitutional democracy in 1994, something which the World Bank calls "one of the most important and impressive political transitions of our time" (World Bank, 2011e). Jacob Zuma was sworn in as president after the ANC obtained a 65, 9 percent majority win in the general elections in April 2009. Zuma is facing increasing pressure, despite being in the relative infancy of his five-year term. This is attributed to the difficulty involved in maintaining the cohesion of the tripartite alliance – between the ANC, the South African Communist Party, and the Congress of South African Trade Unions – as divisions grow between its members. Zuma's backing for finance minister, Pravin Gordhan, and for the continuity of the market-pleasing economic policy, will enhance the dissatisfaction of the left, especially COSATU (Economist Intelligence Unit, 2011; World Bank, 2011e).

Democratic consolidation essentially entails popular support for a political regime. The most commonly accepted definition of the consolidation of democracy involves equating it with legitimation; citizens endow a regime with political legitimacy when they willingly support the rules that govern them. Democracy is consolidated when it is viewed as the 'only game in town', whereby leaders and citizens agree that no alternative form of regime has a superior claim to their allegiance (Bratton and Mattes, 2001:447). According to political culture theory, political instability is brought about by an incongruity between mass attitudes and values on one hand, and political institutions on the other (Almond and Verba, 1963). Mattes attributes the third wave of democracy that spread across the planet between 1975 and 2005 to the fact that authoritarian and totalitarian regimes could not supply adequate economic and political goods to satisfy their citizens. One of the pertinent questions for a new democracy like South Africa is whether the value structure that de-legitimated the former authoritarian regime under apartheid is sufficient to legitimate and consolidate the country's new liberal democracy (Mattes, 2011:1).

Mattes says that the South African population has no specific affinity for democracy and would be willing to accept one party rule or strong man dictatorship if these regimes are able to guarantee economic development. He adds that the benefits that were accumulated due to the political experiences of liberty, freedom and self-government have been neutralised by clear weaknesses that cannot be ignored in the form of continuing poverty, unemployment and corruption. Nearly two decades on, the consolidation of South Africa's democracy is as dependent on performance-based support as ever (Mattes, 2011:2).

According to Freedom House ratings South Africa's political rights and civil liberties ratings declined from 1 to 2 in 2007, as a result of the ANC's growing monopoly on policy making and its increasingly technocratic nature; the constitution does however protect both the freedoms of expression and the press. The government is sensitive to media criticism nonetheless and is trying to restrict the editorial independence of the SABC, to the extent that its critics are not permitted on SABC airwaves. South Africa is a politically stable and free country in spite of this, but legitimacy appears to be creaking. It is clear that there is an increasing lack of confidence in the government, which is illustrated by the drop in voter turnout from 89, 3 percent to 76, 7 percent



between the 1999 and 2004 National Assembly Elections (African Elections Database, 2011). On a positive note the percentage of voter turnouts increased slightly to 77, 3 percent during the 2009 National Assembly Elections (Freedom House, 2007; Freedom House, 2011; The Independent Electoral Commission, 2011).

Protests in South Africa had generally been peaceful and relatively low in number since the ANC came to power. This has changed significantly of late with service delivery protests increasing significantly and often turning violent over the past three years. According to the ‘hotspots monitor’ run by Municipal IQ – a local government data and intelligence service which monitors protests in all of the country’s 283 municipalities – 75 noteworthy service delivery protests had taken place by the end of September 2011; in 2010 and 2009 there were 111 and 105 incidents respectively. These figures are worrying when compared to the average number of incidents that took place between 2004 and 2008, which amounts to only 21 (Municipal IQ, 2011).

In order for South Africa to create a strong state it needs to appear legitimate to the country’s population. The ANC has performed well in maintaining the democratic principles that are contained in the constitution; in spite of this democratic consolidation requires economic development and an improvement in socioeconomic conditions. The party needs to increase the voter turnout for the next election; the reason for this is that the lower the voter turnout is the larger the proportion of disenfranchised citizens in the country. The ANC should not try to gain greater confidence by limiting the freedom of the press; this will resemble the policies of an autocratic state. The government should rather gain this support by promoting political inclusivity through the use of softer forms of power. Considering that South Africa is only its second decade as a democracy, one cannot blindly accept that its democracy is consolidated; the country’s development aspirations will depend on its democracy taking root even further.

#### **6.2.3.2. Foreign Policy as a Partnership-Building Tool**

South Africa’s foreign policy, according to Fairbanks (2011), has been widely criticised of late due to its indecisiveness. In October 2011, the South African government continued to delay its decision on whether to give the Dalai Lama a visa to attend the birthday party of Archbishop Emeritus Desmond Tutu; this resulted in



the Dalai Lama cancelling his trip after allegedly being fed up with waiting for a response. The country's indecisiveness also played out a few months prior to this in Libya, when South Africa refused to back its emerging market counterparts – Brazil, Russia, India and China – in support of the United Nations resolution mandating a no-fly zone in order to assist the rebels fighting the late Col. Muammar al-Qaddafi. In 2007 it was Burma, and South Africa's U.N. representative voted against a resolution calling on Burma's military junta to free Nobel Peace Prize laureate Aung San Suu Kyi's and other political prisoners. Suu Kyi recently remarked that the South African government does not always stand up for human rights in the same way that the country's individuals such as Desmond Tutu do. Fairbanks critiques the Rainbow Nation, which she describes as a society based on freedom and human rights, for giving up its identity as a moral torchbearer. She believes that this mixed-signals type of foreign policy is due to internal pressure in response to the country's two global identities: as a promoter of human rights and sound morals; and as an emerging regional superpower and new found member of the BRICS (Fairbanks, 2011).

South Africa's foreign policy decisions could perhaps be better understood when one looks at the Department of International Relations and Cooperation's (DIRCO) 'Strategic Plan 2009-2012'. DIRCO makes it clear that it will support the five priorities formulated by the South African government, namely the creation of decent work and sustainable livelihoods, health, education, crime and rural development. Furthermore, DIRCO states that the country's foreign policy aims to forge strong relations with the developing countries of the South as they are important partners in the country's pursuit of economic growth and development. It also aims to strengthen ties with the African Union as it views the organisation as an important actor in the attempt to bring peace, stability and economic development to the African continent. DIRCO has also clearly stated that it values and aims to enhance its relations with developed countries of the North (DIRCO, 2009).

Landsberg agrees with DIRCO's approach and believes that because South Africa is an African power its domestic and foreign policies should be structured in a manner that addresses the country's and the continent's considerable developmental challenges. The country's domestic inequalities and instability should direct policy makers toward engagement with the international community, which includes the

industrialised North and the developing South, so that it can attend to its national and the African conditions. It is for this reason that South Africa needs to incorporate a developmental foreign policy. This foreign policy needs to be pro-engagement, not isolationist, as the large amount of resources that are required to address development issues can only be acquired through engaging the outside world (Landsberg, 2005:723-724).

Landsberg encourages Southern states to form strong South-South alliances and partnerships, so that development can be put back on the global agenda and the playing field can be levelled between North and South. The South should cooperate and develop strategic partnerships instead of opting out of the world-system. A developmental foreign policy cannot operate without developmental states, considering that every core power required a strong state for its development, thus contradicting the minimalist version that the Washington consensus promotes. He believes that South Africa is more than capable of moving toward a developmental foreign policy. The ANC had already initiated developmentalism into its foreign policy from 2000 in response to the Millennium Development Goals. In terms of South Africa's relationship with Africa, Landsberg believes that it should promote its development through partnership and not through hegemony (Landsberg, 2005:726-733).

South Africa needs to make use of the African market for the exportation of its products; the region could be the springboard that the country needs to reach the core. It should try to promote the ideals of shared development in order to foster the partnership-building approach. The regional economic communities (RECs) on the continent present the country with the opportunity to focus its attention on regions of particular interest. This will not be done easily in regions like southern Africa, due to the unequal trading relationship between South Africa and SADC. It was indicated earlier that this skewed relationship with SADC provides the country with its greatest trade surplus, which allows it to finance a large proportion of its trade deficit with other regions. Criticism regarding this unequal trade relationship can go a long way toward being averted if the country adopts a developmental or partnership-building agenda for the continent. South Africa should continually stress the importance that trade and investment with the country will have for the development of African

countries. South Africa needs to exert greater political and cultural influence on the continent in order to make better use of the African market. Institutions like the African Union should be used to promote political stability on the continent and should share the vision of developing Africa through trade growth.

## **6.2.4. Political Constraints**

### **6.2.4.1. Corruption, Crime and Xenophobia**

South Africa has had to grapple with high levels of corruption in both the public and private sectors. The country ranked poorly in Transparency International's 2010 Corruption Perceptions Index, placing it in 54<sup>th</sup> position out of the 178 countries surveyed. Recent examples of this trend include the arrest and sentencing of former police commissioner Jackie Selebi; the abolishment of the Scorpions; and the announcement that the tender process for several contracts linked with the 2010 World Cup were suspected to be corrupt and nontransparent (Freedom House, 2011).

South Africa has also gained unwanted recognition for having one of the highest violent crime rates in the world. Crime is prevalent throughout the country and does not distinguish between different levels of socioeconomic status. The use of force against criminals has been advocated by the Zuma administration in response to growing concerns, through the implementation of a 'shoot to kill' policy. The police had already been criticised because of the high degree of force it uses, after Amnesty International reported a rise in the number of deaths in custody in 2009. The South African penal system does not provide adequate security for the country's citizens due to overcrowding, inadequate health care, and the abuse of inmates by staff or other prisoners. The legal system only exacerbates the situation whereby poor South Africans in particular often do not have access to a timely trial and state-funded legal counsel due to staff and resource shortages (Freedom House, 2011; OSAC, 2010).

Terrorism is not a major factor on the South African landscape. The last major incident took place in the 1990s when Planet Hollywood was bombed in Cape Town. This occurred during PAGAD's (People Against Gangsterism and Drugs) terror campaign of assassinations, vigilante murders, and bombings in the Western Cape from 1997 to November 2001. No anti-Western attacks have taken place following the prosecution of PAGAD members (OSAC, 2010). There are contrasting reports

pertaining to the number of foreign nationals living in South Africa; general estimates range from two to seven million. The rise in illegal immigration, most notably from Zimbabwe and Mozambique, has been met with a steady increase in xenophobic violence by police and vigilantes. 80,000 foreigners were displaced after a wave of attacks in 2008; this was followed by an attack by residents in the de Doorns informal settlement in 2009 which resulted in some 2,500 Zimbabweans being forced to flee. The South African government introduced a moratorium on the deportation of undocumented Zimbabweans in April 2009 and the majority received 90-day visa waivers. Sporadic attacks continued in 2009 as well as in 2010 after the World Cup. (Freedom House, 2011).

The ANC government needs to deal with crime and corruption efficiently in order to foster greater political legitimacy. Whilst terrorism may not be a major problem the country should place greater emphasis on the protection of its national borders in order to quell the high levels of illegal immigration. Illegal immigration does not only place greater pressure on the level of unemployment in South Africa but xenophobic violence creates a negative international perception of the ANC's ability to govern within the country's borders.

### **6.2.5. Sociocultural Incentives**

#### **6.2.5.1. Developing Brand South Africa**

Van der Westhuizen (2002) points out that an effective marketing strategy is based on the utilisation of cultural resources that consistently transmit the country's culture globally. It is for this reason that the International Marketing Council (IMC) was created in August 2002, with the sole purpose of handling the marketing and branding of South Africa, whilst fostering a strong sense of national identity in the process. The IMC chose to market post-apartheid South Africa through the Brand South Africa campaign, with its catchy slogan 'South Africa is alive with possibility'. Other memorable terms that have branded the country include Archbishop Desmond Tutu's description of post-apartheid South Africa as the 'Rainbow Nation'; as well the 'Proudly South Africa' campaign which was created by the labour movement with the intention of stimulating domestic demand and employment. Arguably, the face that has given South Africa its greatest exposure is that of Nelson Mandela, who placed

second behind Coca-Cola in a survey listing the world's most widely recognised brands (Van der Westhuizen, 2002:11,16; Brand South Africa, 2011).

South Africa appears to be faring well in terms of its global cultural influence when compared to its counterparts in the upper middle income group of countries. Van der Westhuizen (2002:9) believes that the amount of international attention that post-apartheid South Africa has received is far greater than the comparative level one would expect a developing country to receive. This is illustrated by South Africa placing 36<sup>th</sup> in Simon Anholt's Nation Brands Index in 2011. The IMC's CEO, Miller Matola, states that it is the Council's vision to break into the list of top twenty countries represented in the Nation Brands Index by 2020. The country's performance in the region is exemplary as it was the top-ranking country in sub-Saharan Africa according to the 2010 Country Brand Index (Brand South Africa, 2011; Country Brand Index, 2010; Nation Brands Index, 2011).

Even though it may already wield greater cultural influence than one would expect from an upper middle income country, South Africa should continue to build on the success that its soft power has had on the world-system. The IMC is doing well to create a strong brand for the country and it could potentially provide South Africa with a measure of cultural strength that is equivalent to that held by core powers, if it is able to break into the top 20 national brands.

#### **6.2.6. Sociocultural Constraints**

##### **6.2.6.1. Unemployment, Poverty, and Inequality**

According to the World Bank (2011e), unemployment, poverty, and inequality remain major challenges for the South African economy. Development is marginal beyond the four economic centres of Cape Town, Port Elizabeth, Durban, and Pretoria/Johannesburg. South Africa is faced with exceedingly high differences in income and wealth, despite the decline in income poverty that has been brought about by the country's substantial economic growth in the post-apartheid period. This disparity comes down the fact that between 1995 and 2008 inequality actually increased from 0.64 to 0.67 using the Gini coefficient. The government is faced with the task of de-racialising capitalism as white South Africans still control most of the capital in the country (World Bank, 2011e).

A significant black middle class has emerged in recent years, brought about by an economic boom and aggressive affirmative action policies in the corporate sector. The UCT Unilever Institute (2007) estimates that more than 12,000 'Black Diamond' families (South Africa's new black middle class) - or 50,000 people - are moving from the townships into the suburbs of South Africa's metro areas every month. Nonetheless, a substantial proportion of the country's wealth remains concentrated in a small segment of the population. Unemployment is a major concern and official reports state that it currently stands at more than 25 percent, as the poor do not have access to an abundance of economic opportunities (Freedom House, 2007; World Bank, 2011e).

The government has made steady progress in its attempt to deal with the social inequalities that characterise South African society. It needs to ensure that it provides sufficient services and opportunities for all of its citizens, if it seeks to become a core nation by 2025. The only way that this will be achieved on the socio-economic level is through the successful creation of a strong state that has attained long-term economic development, a requirement which is imperative for upward mobility in the hierarchy of core, semi-peripheral, and peripheral states. On the cultural level, inequality will continue to be a divisive element within society especially because these class differences were formed along racial lines during the apartheid era. The emergence of a substantial black middle class could be the saving grace that the government needs in its attempt to create a unified national culture. This success represents the positive impact that affirmative action policies have had on the country, and will continue to have if implemented in a balanced way. In order to build on this success leading up to 2025, the government should ensure that its citizens have access to a larger amount of economic opportunities, and should do so in a manner that is inclusive of all ethnic and cultural groups.

#### **6.2.6.2. Health and Education**

Around 11 percent of South Africa's population, which accounts for about 5, 5 million of its citizens, is infected with HIV/AIDS. The country has the highest number of people living with the disease in the world. Tuberculosis is rife as a result, with the country accounting for 24 percent of the global burden of HIV- related tuberculosis. Many of South Africa's health problems can be attributed to the apartheid legacy, as

they are predominantly derived from social changes that were brought about by the migrant labour system. The situation is exacerbated by the country's health delivery system which favours the elite heavily. Added to this, the scepticism that was held by the government under former President Thabo Mbeki about the link between HIV and AIDS, is believed to have claimed 330,000 lives between 2000 and 2005. The disease caused a significant reduction in the average life expectancy of the South African population as a result, falling from 62 in 1990 to 51 in 2010. Even though state-funded access to antiretroviral drugs rose in 2008, it has been on a steady decline since then. This development is confirmed by the AIDS Law Project who argue that treatment did not reach around 40 percent of the country's HIV- positive citizens during 2010 (Freedom House, 2011; World Bank, 2011e).

South Africa is on par with the upper middle income group of countries with regard to primary enrollment but its primary completion rate and literacy rate is moderately lower than that achieved by the group (World Bank, 2011e). Education and skills development is pertinent for the expansion of the parallel economy which is an important component leading to real economic growth and development. The government needed to intervene in order to promote training and skills development, so that the country could take advantage of the substantial resource base of skilled, semi-skilled and unskilled labour at its disposal. The then Deputy President, Phumzile Mlambo-Ngcuka, launched the Accelerated and Shared Growth Initiative (AsgiSA) in February 2006. The national initiative aimed at producing a 6 percent economic growth rate accompanied by significant job creation. AsgiSA's overall objective is to halve poverty and unemployment by 2014. The Joint Initiative for Priority Skills Acquisition (Jipsa) was launched a month later and forms one of AsgiSA's integral pillars by developing much needed skills within the South African labour force (AsgiSA, 2009; Department of Trade and Industry, 2011).

Ascent in the international division of labour will involve the provision of goods and services at a higher technological level than what the country currently engages in. It is imperative that this development is accompanied by increased education as South Africa's labour force will require a greater skill set. The high level of government investment in education was one of the key features shared between East Asian



countries during their growth. In keeping with one of the key requirements of a developmental state, similar large-scale investment in education is being undertaken in China and India. The creation of a highly-skilled labour force in South Africa will come to naught if nothing is done about the potentially crippling effect of HIV and AIDS. The government needs to ensure that all of the country's HIV- positive citizens have access to antiretroviral drugs. Furthermore, more should be done to educate the youth about how the disease can be contracted as well as its effects; this will contribute toward increasing South Africa's life expectancy levels. Large differences in health and education levels rival the divisive role that inequality plays in the South African society. These visible differences need to be addressed in order for the country's multicultural citizens to share commonalities that transcend the myriad of ethnic identities.

### **6.3. Summary of Findings and Conclusion**

The primary purpose of this study was to propose the most optimal and inclusive strategies at South Africa's disposal that would give the country the best possible opportunity to reach its ambition of being classified as a developed country. A fifteen-year time scope was used with the intention of implementing strategies that would realize this goal by 2025. The aim of this thesis was to move away from a primarily economic approach that would ordinarily be used when addressing this question. A branch of political economy, known as the modern world-system theoretical perspective, was used in order to provide the necessary holistic approach for this undertaking. From this perspective, global power structures are determined by a country's position in the division of labour within the modern world-system. This means either forming part of the core, semi-peripheral, or peripheral group of countries. National development requires ascent in this political-economic hierarchy. World-system theorists emphasise that the components of national development are all-encompassing and require an increase in state strength, long-term economic development, and domestic and international cultural influence.

The second chapter provided a solid theoretical understanding of the approach, with Wallerstein explaining that three economic strategies were available to countries wishing to develop within the capitalist world-economy. This involved ascending by means of seizing the chance (import substitution); by invitation (an export-led growth



strategy); and through the strategy of self-reliance (closed national approach). Semi-peripheral ascent had the additional requirements of attaining optimal cost levels as well as having a large enough market for its products at its disposal. It was emphasised throughout the study that political and sociocultural strategies were also important components of South Africa's development.

The aim of chapter three was to locate South Africa in the modern world-system, and to gain a better understanding of what its role had been within the system up until this point. It was discovered that the country was first incorporated into the periphery of the world-system during the 1840s with the exportation of wool and sugar. South Africa's development was given a significant push with the discovery of diamonds and gold. This allowed it to develop industry and by the 1920s the country reached semi-peripheral status. The South African government focused predominantly on import substitution for its growth thereafter, until the early 1970s when it began to investigate the possibility of expanding the export sector. South Africa is firmly established as an advanced semi-peripheral state and it has continued on an upward curve within this group when compared to the previous assessments of its position by theorists such as McGowan and Andreasson. South Africa's current position in the modern world-system was gained by using a broad spectrum of indicators, which included its GNI per capita, the composition and growth of its GDP, the nature of its imports and exports, its regional hegemonic attributes, its foreign policy and democratic characteristics, and finally its sociocultural traits.

Chapter four accounted for the changing dynamics of the world-system at large. It looked at how countries developed traditionally and how this environment has changed today. It was found that countries could adopt any of the three strategies with varying success up until the early 1990s. China and Russia utilised self-reliance, Mexico and Brazil adopted import substitution, whereas South Korea and Taiwan favoured export-led growth. Upon closer inspection it was found that these approaches were not as dissimilar as they were first thought to be. In fact, import substitution and export-led growth were used by the latter two sets of countries interchangeably. Wade (2004), Chang (2003) and List (1885) discovered that this approach had actually been followed during the development of the majority of core states, as well as the previous hegemons.

The World Trade Organisation changed the rules of the game in 1995 by pushing the neoliberal developmental agenda. Trade restrictions were imposed by the WTO on countries wishing to adopt protectionist policies. The core states were trying to hide the success of their development by limiting the policy options of developing countries. Chang (2003) referred to the blatant refusal of core powers to allow developing countries the opportunity to adopt the strategies that made them successful as ‘Kicking away the Ladder’. The WTO made use of the TRIPS, TRIMS, and the GATS Agreements, to limit their policy options as core states stand to benefit the most from free trade. It has essentially taken away the ability to put economic growth at the forefront of government policy, thus preventing the formation of developmental states. The Organisation backs its restrictive development measures up with an effective dispute settlement mechanism that is heavily weighted toward protecting the interests of core powers.

Effective developmental strategies were proposed in the fifth chapter once South Africa’s current position in the modern world-system had been identified. This firstly required an analysis of what the structure of the world-system would be in 2025. It was established that South Africa would most likely have to contend with a multipolar world-system by that time. The interesting thing is that a global shift in power from West to East is emerging with an increasingly strong China and India. With the growth of South Africa and Brazil added into the mix an opportunity will be provided to foster greater South-South relations, which will result in the weakening of traditional Western alliances.

Table 12 illustrates the most optimal strategies proposed for South Africa’s development making use of the modern world-system theoretical perspective. It is recommended that the country’s long-term economic development needs to be approached by using both the import substitution and export-led growth strategies. A strong state needs to be created at the same time. It is suggested that the South African government continues along the path of adopting the attributes of a developmental state. Finally, the country needs to focus on furthering its domestic and international cultural strength. The ability to expand its soft power will allow South Africa to exert greater influence on the world-system than it already does. Drawing from chapter six

the table also contains the internal and external constraints and incentives within the three factors that need to be addressed and exploited respectively.

**Table 12: Summary of South Africa's Proposed Growth Strategies**

<b>Strategic Proposal for South Africa's Ascent in the Modern World-System</b>				
<b>Factor</b>	<b>Objective</b>	<b>Strategy</b>	<b>Incentives</b>	<b>Constraints</b>
<b>Economic</b>	Long-term Economic Development	i) Import Substitution ii) Export-Led Growth	i) South-South Trade ii) B-Phase of World-Economy iii) Capture the African Market	i) Mineral-Energy Complex ii) Wage Levels Influenced by Labour Unions iii) Technology and Infrastructure iv) Affirmative Action and Brain Drain
<b>Political</b>	Creation of a Strong State	Government Policies that Drive Development	i) Democratic ii) Partnership-Building Foreign Policy	i) Corruption ii) Crime iii) Xenophobia
<b>Social/Cultural</b>	Cultural Strength and Influence	Government to Strengthen South Africa's Domestic and International Soft Power and Sense of Unity	i) English-Speaking ii) Peace-Promoting Foreign Policy iii) Hosting Major Sporting Events iv) High Quality Institutions v) Strong Brand Image	i) Unemployment ii) Poverty iii) Inequality iv) Health v) Education

### ***Final conclusion***

It is clear based on the evidence provided that South Africa faces numerous constraints to its development, despite the noteworthy economic, political and sociocultural incentives that it could potentially capitalise on over the next fifteen years. These constraints point to the fact that South Africa is not in the best position right now to reap the benefits of the most optimal developmental strategies put forward by the modern world-systems approach; this holds true for all three

components for development. Ultimately that leaves South Africa in a position whereby it will be severely challenged to attain core status by 2025.

#### **6.4. Prospects for Further Research**

It has been argued that a holistic approach is needed in order to make more effective proposals for South Africa's path toward development. Even though the modern world-systems approach is criticised in many circles, there is value in seeing how the country operates within the dynamics of the system. The government's recent policy documents attest to the move away from a primarily export-led growth economic strategy, by realising the need to protect and promote the growth of certain industries. It appears that the government also realises the importance of having a strong state that is focussed on driving development. The creation of a strong South African brand, as well as the resources that were allocated toward the successful hosting of the 2010 FIFA World Cup, confirms the national government's ambition to strengthen its cultural influence within the world-system.

The Policy Co-ordination and Advisory Services (PCAS) unit in the Presidency compiled a Scenario Planning Process in 2008 entitled *South Africa Scenarios 2025: The future we chose?* The purpose of the document was to provide a reflective view of the three paths that South Africa may have traversed come 2025. They created the three possible scenarios (Table 13) that South Africa may have experienced, looking back as if it was already the year 2025 (Policy Co-ordination and Advisory Services, 2008:3-11).

**Table 13: South Africa Scenarios in 2025**

	Scenarios	Description
<b>Scenario 1</b>	Not yet Uhuru	This depicts a Government strongly committed to accelerating economic growth through optimising conditions for private investment, but which struggles to achieve its goals in the face of slow growth and minimal sharing of benefits, deteriorating global conditions and severe ecological challenges
<b>Scenario 2</b>	Nkalakatha	This depicts a more cohesive society as a result of government articulating a compelling national vision and fostering partnerships, while playing a more central role in the economy, prioritising poverty reduction and skills enhancement
<b>Scenario 3</b>	Muvhango	This depicts a government that battles to govern well despite an initial resurgence of the economy and positive world conditions, because of poor planning, lack of coordination, slow policy implementation as well as internecine and debilitating warfare within the party-political arena

Source: Policy Co-ordination and Advisory Services, 2008:3-11; South African Government, 2009:4.

It is clear that the ‘Nkalakatha’ scenario contains the attributes of a developmental state, whereas the other two possess a predominantly economic focus. The ‘Muvhango’ and ‘Not yet Uhuru’ scenarios illustrate that a purely economic approach, whether the outcomes are positive or negative, cannot cover all of the facets that are required for broad-based development. Further research should be conducted over the next few years pertaining to which is the likely scenario for South Africa come 2025; much of this will depend on whether the government has the capacity to adopt the development strategies that resemble the holistic approach put forward by world-systems theorists. This would involve a strong, legitimate state that directs the economy’s long-term growth, and fosters cultural strength and the wellbeing of its citizens. In order to measure whether South Africa’s development has been successful by 2025, the indicators that were used to derive the country’s current

position in the modern world-system should show greater similarities to the figures associated with the core group of states, as opposed to the semi-peripheral group. It is unlikely, however, that this will be the case in the given time period.

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